RAISING OUR GAME

THE

CLIMATE FINANCE PLAYBOOK

how to accelerate to meet Paris goals

WITH EXPERT ADVICE AND STUFF LIKE THAT ☺

The ROCKEFELLER FOUNDATION

PRI Principles for Responsible Investment

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The

BIG GOAL

Experts looking at how and if we can meet the implementation challenge of Paris agree that the "Climate Finance Community" must step up its game. **The goal:** accelerate towards an annual goal of $1 trillion in private and institutional capital invested annually in low carbon and resilient infrastructure projects and ancillary services by like…tomorrow.

There is good news: there are many, many promising climate finance solutions emerging on the scene to close key market gaps. The bad news? Interested investors of all shapes and sizes, and emerging innovators of every stripe, often struggle to find each other—and often talk past each other. Different investor expectations, lexicons and geographies need to be clarified—fast—and then linked to action.

Enter the

CLIMATE FINANCE PLAYBOOK

We in the climate finance tribe—"we" being institutional investors, public sector officials, international development experts and so on—need to raise our game. We need to better understand our own taxonomy of sub-tribes and challenge each other to define and deliver on tangible outcomes whose shelf lives need to scale long past a single summit.

Some observers have joked that "climate finance" is like a Rorschach ink blot; people presuppose that others understand everything they mean when they talk about their latest de-risking and blended finance take-out strategy. Best to assume *otherwise*.

With the help of our great advisory team, a dash of humor, a few cartoons and support from the Rockefeller Foundation, let the era of accelerated climate finance clarity and investment begin.

Thanks in advance for your hard work this week—and in the years to come.

THE ROAD AHEAD:

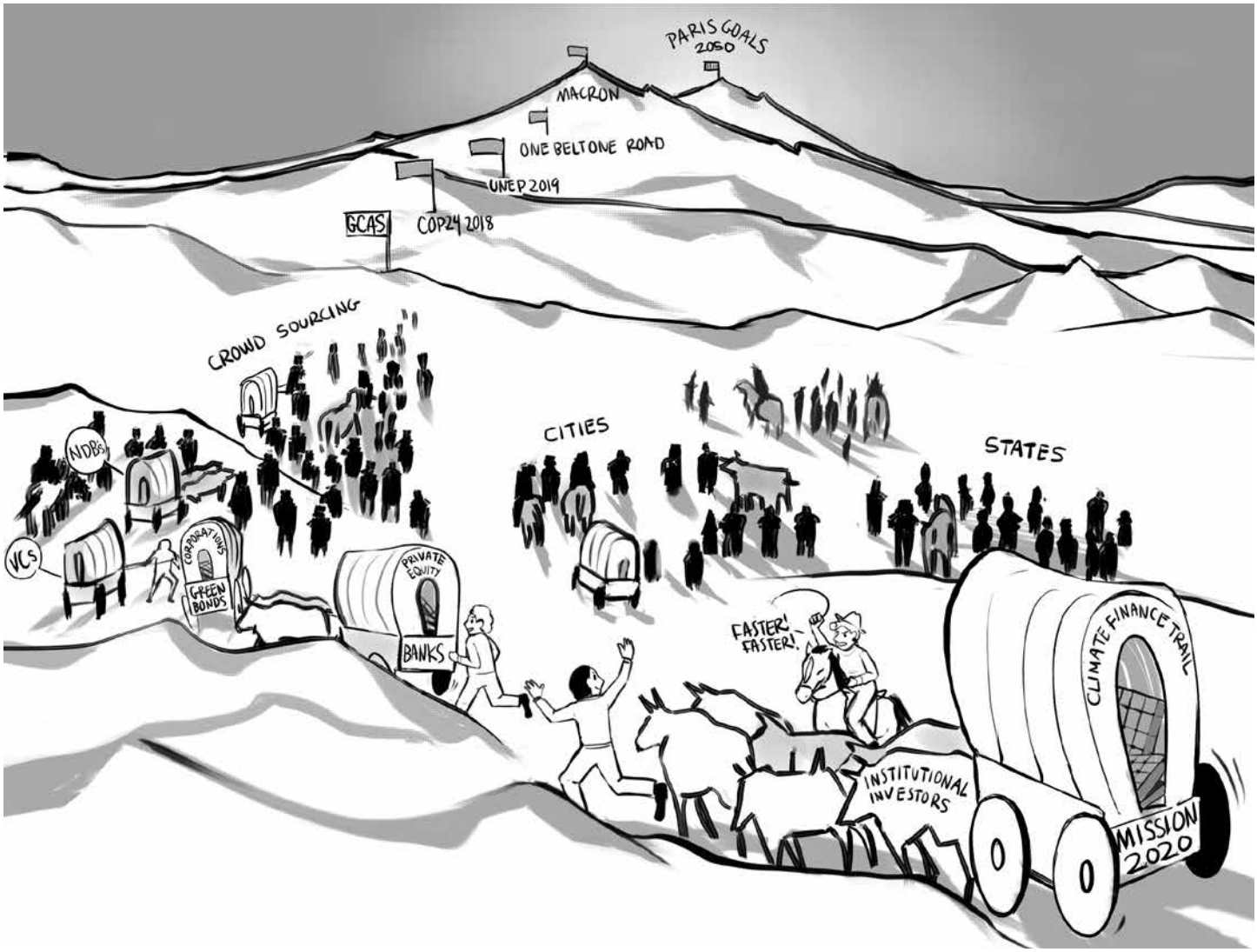
Why we need to go faster to meet our Paris goals

At the heart of the Paris Climate Change Agreement was the commitment by national governments to review their progress and rachet up the ambition of national climate action plans, known as Nationally Determined Contributions (NDCs).

But as made clear in the 2017 Climate Turning Point report, businesses, investors and policy makers need to take new actions covering a wide range of sectors to hit key global climate goals.

Nowhere is this more important than in the area of climate finance.

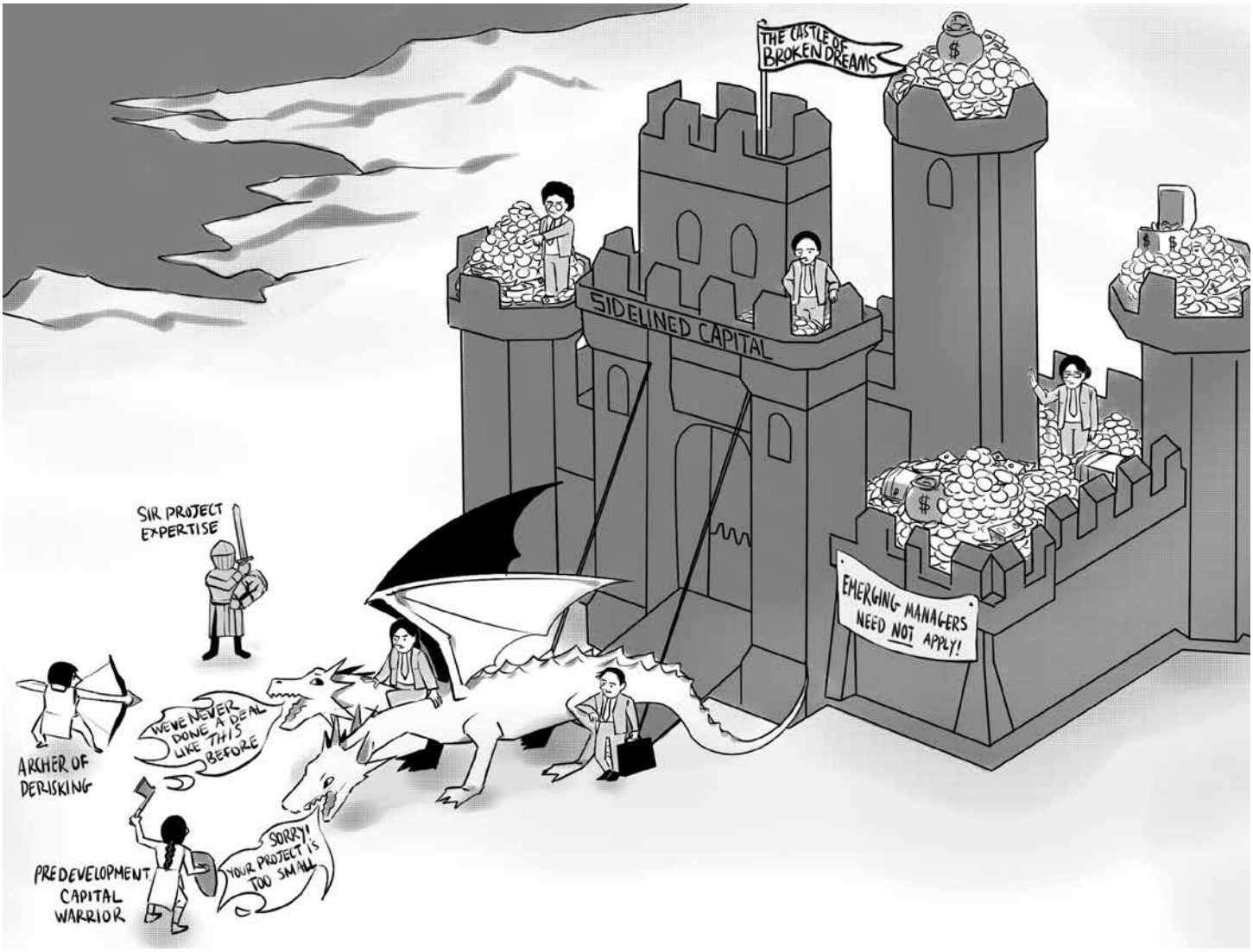
As stated plainly by former United Nations climate chief Christiana Figueres, public and private investors must triple their investments in climate infrastructure to reach $1 trillion a year to help avert a climate catastrophe.



RAISING OUR GAME:

Three action principles

1. Risks, Returns and Realism
2. Resilience and Mitigation
3. Running the Gauntlet



Three action principles:

1. Risks, Returns and Realism

Too often, climate finance conversations stall out because project proponents seeking funding and potential investors looking for portfolio returns are operating in different universes with different lexicon and return expectations. Public sector leaders need to shift from looking exclusively for grants for worthy capital projects to building out investor-friendly 20-year project portfolios mindful of life cycle climate risk. Investors need to bring clear term sheets to the table stating what kinds of risks, returns and projects they are ready to invest in—and develop a long-term investment mindset that prices the true cost of holding potentially stranded assets.

2. Resilience and Mitigation

Climate finance used to mean just investments in renewables and greenhouse gas mitigation. Now it means the full gamut of activities and outcomes (!!!) that we need to get the job done right by 2050. That means making sure that trillions of dollars worth of future infrastructure is resilient to climate risk so we have more public funding for mitigation. It means considering the social dimensions of climate change and valuing natural ecosystem services so that watersheds have as much equity value as money in the bank. And it means making sure that our community steps up to support major new initiatives such as China's One Belt One Road with the green expertise and capital to ensure that trillions of dollars in new infrastructure investment takes the high road on climate and resilience.

3. Running the Gauntlet

So how can the finance community do its part—and then some—to meet the world's Paris goals on climate? The community's success to date in mobilizing capital suggests we are at an inflection point. Continuing to keep our heads down and IMPLEMENTING is therefore key. So is working harder to win over major institutions like banks to lean in more and to support early stage investments gaps in the capital markets. Maybe most importantly, nerdy concepts like project pipeline, predevelopment, and concessionary capital need to become as sexy as billion dollar commitments to take a "look" at deals.

THE KEY PLAYS:

Each key player in the climate finance community has its part to play in the years ahead–along an investment continuum from smaller angel investors to big pension funds.

Experts looking at how and if we can meet the implementation challenge of Paris agree that the "Climate Finance Community" must

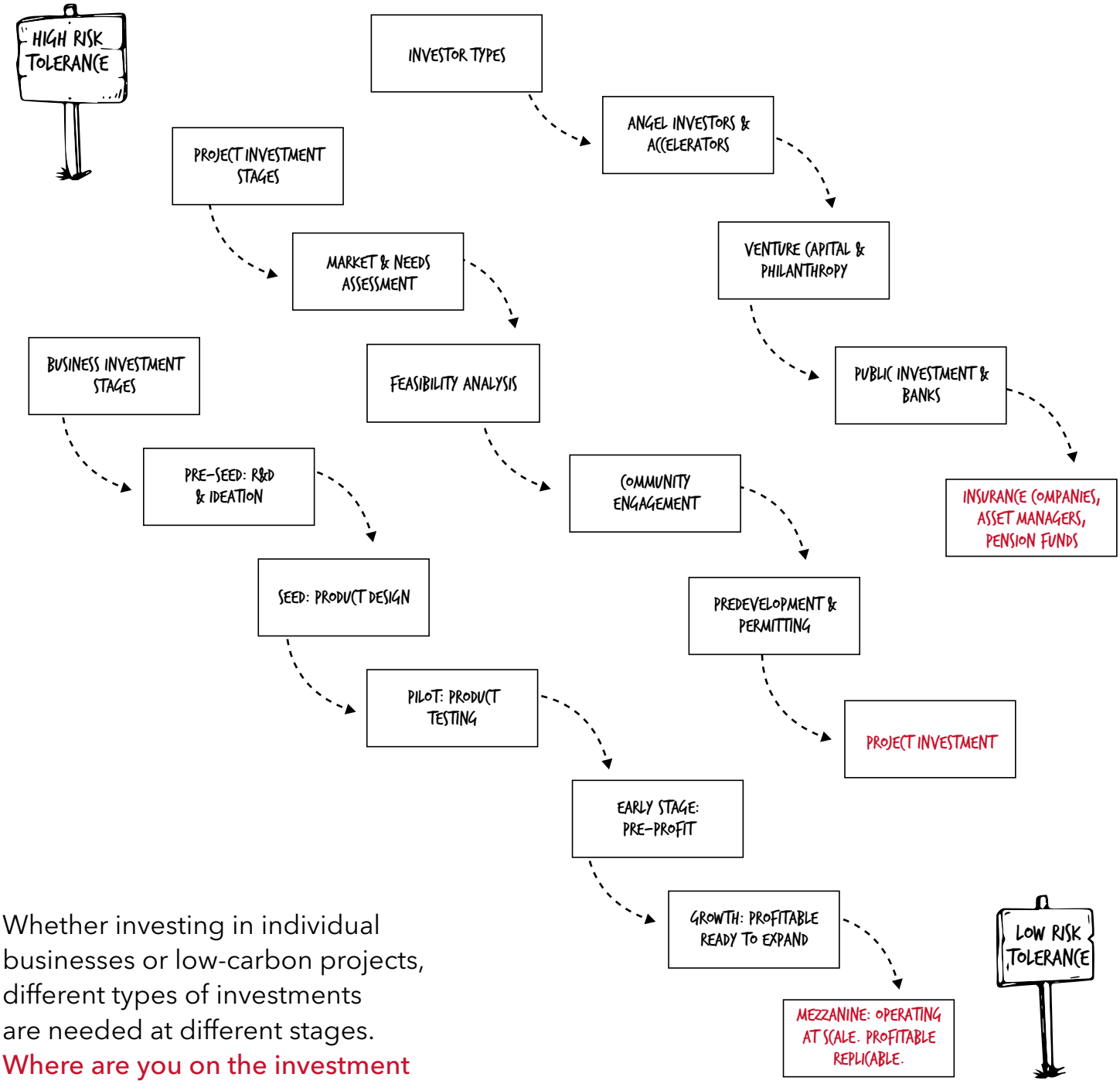
…step up its game.

Incubators and Accelerators

- Minimize the so-called "valley of death" by providing support, advice, training, and networks to start-ups in the climate technology sector.
- Identify "winning" technologies at the earliest stage possible.
- Focus on entrepreneurs and companies with highest climate impact, and ensure that Just Transition solutions benefiting and developed by women and vulnerable communities are an integral part of incubator programming.

Financing Innovation

THE INVESTMENT CONTINUUM



Whether investing in individual businesses or low-carbon projects, different types of investments are needed at different stages. Where are you on the investment continuum?

Venture Capital

- Identify and commercialize climate solutions that have an impact for the long term.
- Consider venture funding for increased marketing efforts, new retail locations, and inclusionary recruiting.

Angel Investors

- Help startups move from ideation into beginning production by providing convertible notes, convertible SAFEs, common equity, preferred equity, warrants or other innovative capital.
- Match high rate of return expectation with significant risk tolerance to allow innovative climate companies to strategically expand even though operating at a loss.

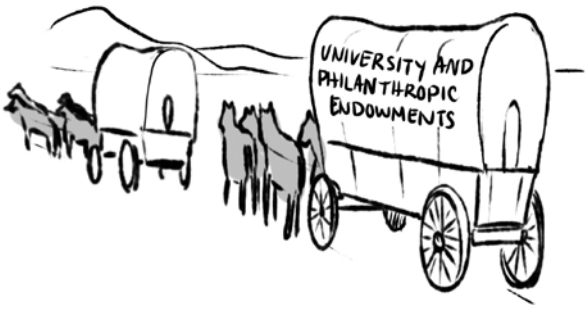
Family Offices

- Align family office members around a climate mission and then set aside a portion of their portfolio for high impact investing in companies or funds.
- Work with and engage impact asset managers in traditional asset classes.
- Look for alternatives like private equity, venture capital, property, real estate and hedge funds with a climate focus.

For the most comprehensive taxonomy of climate finance categories and finance flows, don't miss the Climate Policy Initiative's "Landscape of Climate Finance" (2017). More in the Resources section at back.

Pension Funds

- Identify areas where the asset allocation ranges and portfolio structure might evolve in the future, including undertaking scenario analysis and portfolio alignment with the Paris Agreement goals.
- Set a carbon neutral target for the real assets classes or a renewable energy target for the listed equity portfolio.
- Discuss and identify potential trigger points to consider altering asset allocation ranges.
- Set a "Paris-aligned" portfolio goal and invest in green bonds or climate bonds on the fixed income side.
- Consider the social dimension of climate change and Just Transition strategies for the communities most affected by climate change.



University and Philanthropic Endowments

- Consider setting a net zero emissions target for portfolios.
- Participate in endowments networks focused on sustainability.
- Use the Task Force on Climate Related Financial Disclosure framework to disclose progress towards endowments' goals.

Strategic Investment Partners

- Large construction companies, utilities and big energy companies can provide both equity and strategic private debt to promising start-up companies in energy, water mobility and agriculture.
- Issue transparent non-binding term sheets to help smaller service providers target emerging market opportunities.
- Focus capital expenditures on renewable energy projects and infrastructure utilizing green bonds and/or equity investments while decreasing capital expenditures on carbon intensive assets.

Insurance Companies

- Work with other institutional investors, like pension funds, to buy green bonds and invest in pooled clean energy infrastructure funds.
- Contribute to the climate finance community by providing specialized insurance and reinsurance products to help investors mitigate climate related risks and move money into climate solutions.
- Partner with national development banks to focus on particular risks in emerging markets.

The Climate Finance Community goal:

Accelerate towards an annual goal of $1 trillion in private and institutional capital invested annually in low carbon and resilient infrastructure projects and ancillary services.

The Missing Ingredient: Derisked Deals

Every year, more and more climate-minded investors are allocating funds to invest in low-carbon projects around the globe, but a common refrain is often heard: *where are the deals I can invest in?*

Call it concessionary capital, predevelopment funding or project de-risking, often the hardest money to find—to get an innovative project off the ground—is early funding for feasibility studies, financial analyses and stakeholder-engagement and buy-in. This is unheralded and hard work that NGOs and public sector agencies usually do while investors and their funding wait on the sidelines.

But all is not bleak: One great step forward to close this gap has been taken by the European Union's External Investment Plan which has set aside $4 billion for de-risking, credit enhancement, and critical local technical assistance to help developing countries prime the pipeline of projects, and enhance the capacities of private sector representatives.

https://ec.europa.eu/commission/sites/beta-political/files/external-investment-plan-factsheet_en.pdf

Sovereign Wealth Funds

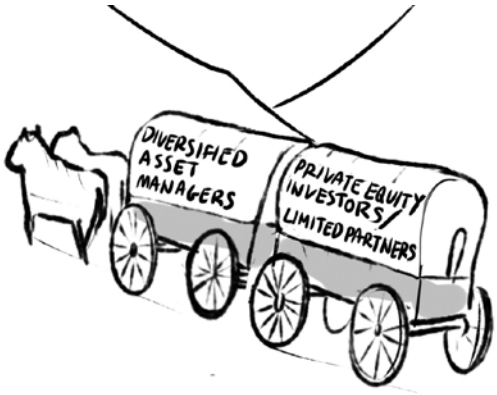
- Develop green investment capacity through public-private partnerships, private-private partnerships, and joint investments in climate-friendly projects with multilateral development banks.
- Provide seed capital to stimulate the growth of green bond markets in developing and emerging markets.
- Be first movers as co-investors by pooling expertise and experience with other investors to evaluate direct investments and share risk and upside potential in new climate innovations.
- Identify areas where the asset allocation ranges and portfolio structure might evolve in the future, including undertaking scenario analysis and portfolio alignment with the Paris Agreement goals.

National Development Banks

- Play on both demand and supply sides to mobilize climate finance at scale.
- Support pre-development and de-risking work to grow the investable project pipeline through grants, technical assistance and loan-loss funding in partnership with the public sector.
- Provide a combination of financial instruments to facilitate the financing of projects including Tier 1 and 2 loans, direct equity, and guarantees to enable the local finance initiative to attract other capital.

Diversified Asset Managers

- Engage with portfolio companies to address climate risk through individual and collaborative dialogues, proxy resolutions, and proxy voting.
- Emphasize long-term value creation and reward portfolio teams with compensation tied to climate impacts, longer term returns and reduced climate risks.
- Consider developing new funds and products.

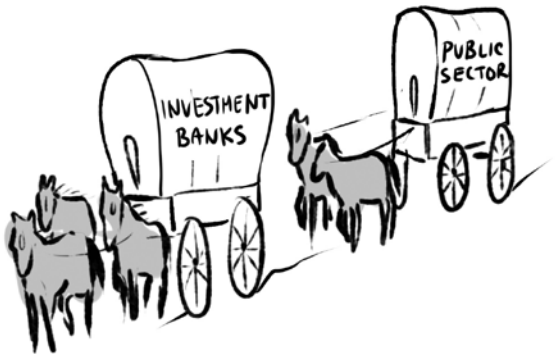


Private Equity Investors/Limited Partners

- Engage with Fund General Partners to fully explore both climate related risks and opportunities.
- Seek investments in companies whose products and services are aligned with the Paris Climate Goals.
- Ask key questions about the GP's core approach towards 1) climate change risk assessment, management and governance in their geography or sector; 2) the GP's ability to actively manage climate issues and ensure regulatory compliance; and 3) the GP's reporting and disclosures to their investors on climate issues.

Investment Banks

- Set ambitious targets for lending to climate solutions. The investment banks have a significant role in structuring finance and deploying capital to renewable energy projects, with a particular focus on structuring deals to encourage partnerships with institutional investors like pension funds and insurance companies.
- Begin to follow the example of the green investment banks and limit their lending to heavy emitting companies in every sector.
- Bundle loans into green bonds that will be attractive to institutional investors, thereby generating new bank capital for climate positive projects.



Public Sector

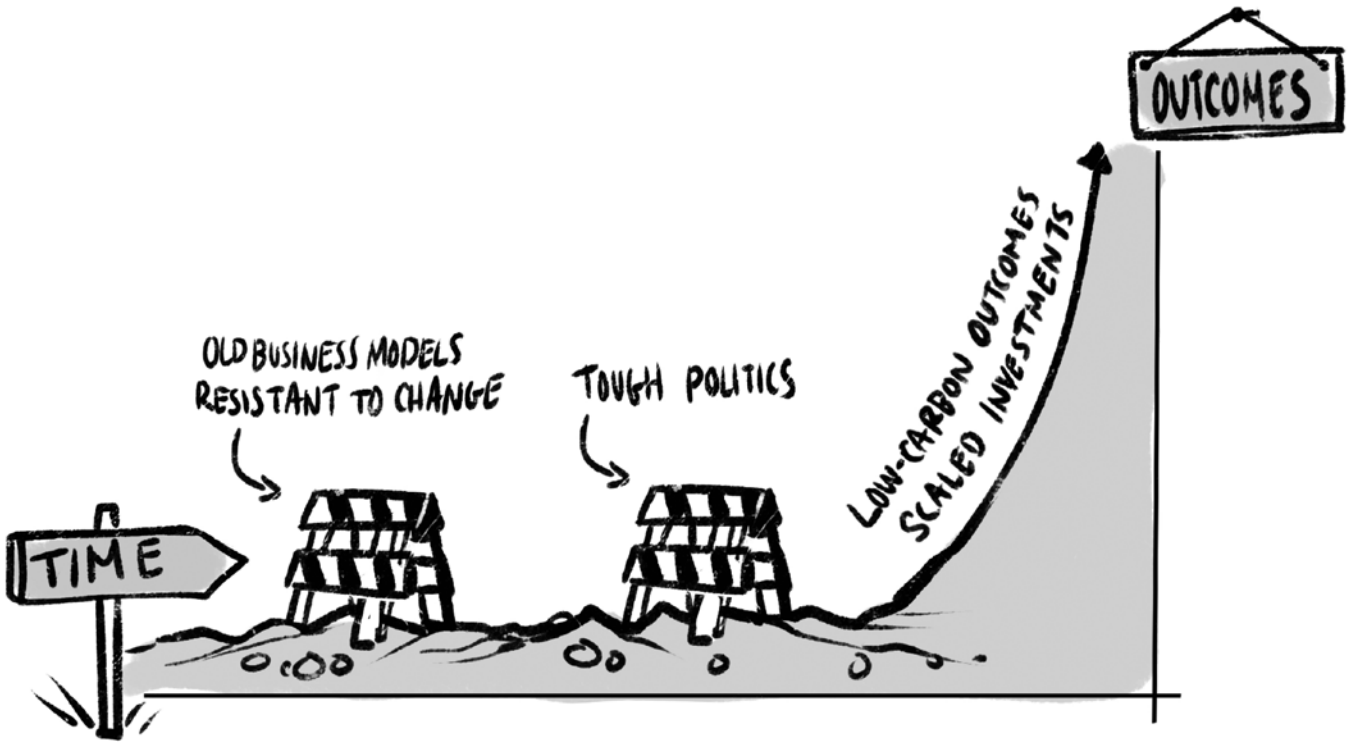
- National and Subnational Governments can pass and implement low-carbon policies, such as Buy Clean procurement rules, renewable portfolio standards, energy efficiency standards, carbon pricing mechanisms and project pre-development support for local communities.
- Mitigate taxpayer risks through life-cycle asset management and innovative insurance mechanisms that share climate risks across communities, so that a catastrophic weather event does not impact one community alone.
- Utilize green bonds whenever appropriate when funding infrastructure improvements.

OVERTIME:

Embracing the outcomes curve

It's always worthwhile to gather and celebrate the amazing growth of the climate finance community—while taking stock of the acceleration challenges ahead. From the Global Climate Action Summit in September 2018 to coming gatherings in Paris to Poland to Places Yet Known, we must continue to combine a deep sense of urgency with a steely-eyed commitment to smart implementation from the ground up.

We all know in the finance world about the "hockey stick" curve that shoots sharply upward when an investment takes off in value. But now we must work together to create a new kind of financial paradigm—an outcomes curve. Right now, we are at what management guru Charles Handy would describe as the zone of paradox. Progress seems slow, as the incumbent high-carbon business model gives way to a new low-carbon future, and as innovation begins to scale. Guess what—that's OK. Carry on!



Resources

OK, that was fun — but tell me how to climb faster.

Here are ten key links to get smart and inspired for action:

American Council on Renewable Energy
https://acore.org/acore-sets-investment-goal-of-1-trillion-by-2030-for-u-s-renewables/

Ceres
In Sight of the Clean Trillion
www.ceres.org/CleanTrillionInSight

Climate Policy Initiative, Landscape of Climate Finance
https://climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2017/

Climate Change and the Just Transition: A guide for investor action
https://iri.hks.harvard.edu/

Brookings Institute, Working Paper 120
Blending Climate Funds To Finance Low-Carbon Infrastructure
https://www.brookings.edu/research/blending-climate-funds-to-finance-low-carbon-climate-resilient-infrastructure/

Deep De-Carbonization by 2050: Rethinking the role of climate finance
https://climatepolicyinitiative.org/publication/climate-investment-research-collaborative-on-long-term-effectiveness-circle/

Milken Institute, Growing the Green Bond Market
www.milkeninstitute.org/publications/view/927

The Paradox of Charles Handy, CBE
www.strategy-business.com/article/03309?gko=f3861

UN Principles for Responsible Investment
www.unpri.org/climate-change/how-to-invest-in-the-low-carbon-economy/3210.article

50/50 Climate Project: 2018 Key Vote Survey
https://5050climate.org/news/2018-key-climate-vote-survey/

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