SDCL Investor Update:
COP26 Key Thoughts and Conclusions

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After a week to reflect on COP26, we set out some key thoughts and conclusions below:

1. Energy efficiency needs to play a much larger role in future COP discussions

This year, energy efficiency should have been amongst the first, but was one of the last, topics of discussion at The United Nations Conference of the Parties (''COP'').

Energy efficiency is not the whole answer to the decarbonization of energy, but it is probably more than half of it. However, the inclusion, for the first time, of energy efficiency alongside the deployment of clean power generation was a very welcome late addition to the "Calls Upon Parties" in the Glasgow Climate Pact.

Government commitments to cut methane emissions, deforestation, coal, and petrol and diesel cars are huge steps forward and the result of years of diplomatic negotiations. But energy efficiency deserves – and now needs – to move into centre stage.

While some of the technologies required to achieve net zero by 2050 do not yet exist, this is not the case for energy efficiency infrastructure, which is readily available, widely tested, and irrefutably successful. Energy efficiency represents more than 40% of the emissions abatement needed by 2040, according to the IEA Sustainable Development Scenario.

The world wastes some 2/3rds to 3/4s of energy through inefficiencies on the supply and demand side. Around 70% of the world's energy is used in buildings, industry and transport. Goldman Sachs's Carbonomics report stated that in order limit global warming to 1.5 degrees we need buildings, which use 40% of energy, to move to net zero by 2040, removing 3-4 gigatonnes of carbon. Buildings energy efficiency will be critical to the goal. The report noted that we need to take 13 gigatonnes p.a. of carbon out of the power sector. We propose that perhaps up to half of this can come "for free" from energy efficiency.

Solving energy inefficiency problems is just as important as investing in new energy generation, and in many cases more economically feasible, responsible and profitable. A 2015 report by Climate Works and the Fraunhofer institute showed that energy efficiency could save between 2.5 and 2.8 trillion USD by 2030, including up to 150 billion USD per annum in Europe and the USA. Further, the International Energy Agency has long held that a one dollar invested in energy efficiency generates two dollars of savings.

Increasing demand for heating and cooling represents at least half of the next decade's energy problem and thus the biggest opportunity for improvements in efficiency and performance globally. We will see 5 billion new air conditioners in the next 10 years. The rise in cooling demand between now and 2050 will create more energy demand than China and India's combined power use today. The world population is growing rapidly and temperatures are steadily increasing, making these solutions vital and urgent.

The IEA suggests that with the right policies, we can double the efficiency of air conditioners, requiring less power plants, and reducing global emissions. All of the global growth in buildings' energy demand from now to 2050 can be fully met through energy and cooling efficiency improvements.

For these reasons, we have conviction that SDCL is in the right place at the right time with its focus on leadership in energy efficiency investment and will continue to advocate strongly for it and of course invest in it.

> "We consider energy efficiency to be the 'first fuel' as it still represents the cleanest and, in most cases, the cheapest way to meet our energy needs."
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> **Energy Agency (IEA) Executive Director Fatih Birol**

2. COP26 was galvanising in its focus and alignment around the target to limit global temperature rise to 1.5C by transitioning to a net zero carbon economy

COP26 ended with a global agreement to accelerate action on climate this decade, completing the Paris Rulebook and for the first time agreeing to "phase down" unabated coal power.

While the agreement fell short of many expressed hopes and expectations, COP26 nonetheless illustrated a significant convergence between business, finance, and government to drive international decarbonization.

Nearly 200 countries agreed to the Glasgow Climate Pact, which is aimed at keeping the ambition of limiting global temperature rise to 1.5C alive. All countries committed to revisiting and strengthening their current emission targets, known as Nationally Determined Contributions (NDCs), by 2022 for COP27. Further, the Pact highlights scientific findings from the IPCC, establishes an annual, global progress report roundtable and a 2023 Leaders Summit, and calls on developed countries to double climate adaptation funding for developing countries by 2025.

The completion of The Paris Rulebook included an agreement on transparent reporting on emissions targets, and a framework for a global carbon market that would allow countries to exchange carbon credits and count them towards their NDCs. Though a Loss and Damage facility was not part of the final decision texts, the UN Adaptation Fund grew substantially, and developed countries promised to meet the 100 billion USD they committed annually to developing countries.

In addition to official COP negotiations, the side-announcements and pledges made over the course of those two weeks aligned around the 1.5C goal. Some of these announcements include a commitment from the US and China to boost climate co-operation over the next decade, a pledge signed by 130 countries – representing 90% of the world's forests – to end and reverse deforestation by 2030, and a scheme backed by over 100 countries to cut 30% of current methane emissions by 2030. Over 1,000 global cities signed on to the "Cities Race to Zero", involving a goal of reaching net zero emissions by 2050 and cutting their fair share of global emissions in half by 2030. In addition, a group of governments and some of the largest car manufacturers announced an agreement to make all new car sales zero emission by 2040, and by 2035 in leading markets.

COP26 in Glasgow

3. SDCL carried the message of energy efficiency into the heart of COP

SDCL was well represented at COP26 and took every opportunity from the Blue Zone (with thanks to the UK government's invitation) to the Blair Estate (as a sponsor of the Atlantic Council's Climate Action Solutions Centre) to emphasise the role that energy efficiency can play in decarbonisation, where it represents some 40% plus of the answer to stated climate and carbon emission reduction targets.

During COP26, SDCL brought together elected and appointed representatives from the United States, Scottish and European sub-national governments for a day-long side event for cities, states, and regions on solutions around heating and cooling, water, buildings and energy, transportation, environmental justice, and just transition.

At COP, SDCL announced its commitment to the Glasgow Financial Alliance for Net Zero (GFANZ), a global coalition for leading financial institutions representing some 40% of global financial assets – equivalent to approximately US$130 trillion – which aligns them to accelerate the transition to a net zero carbon economy.

4. Conclusion: now it's about "the how"

Since the Paris COP21 in 2015, the world has largely moved on from the question of "why" when it comes to climate change mitigation and adaptation.

It has even addressed the "what" – 1.5C, net zero – and the "when", with targets to reduce emissions 45-55% by 2030 and to achieve net zero from 2050. Now and at this COP26, the questions revolved around the "how" – both in terms of the technology and the capital. At least as pertains to energy efficiency, we do not need to leave the question unanswered, as one of our colleagues at SDCL put it:

"we are the how"

SDCL CEO and Founder
Jonathan Maxwell

SDCL Executive Director of Communications & Sustainable Cities **Lolita Jackson MBE**

About SDCL

Sustainable Development Capital LLP ("SDCL"), an investment firm established in 2007, with a proven track record of investment in energy efficiency and decentralised generation projects in the UK, Continental Europe, North America and Asia. SDCL is headquartered in London and also operates worldwide from offices in New York, Dublin, Madrid, Hong Kong and Singapore.

SDCL manages the SDCL Energy Efficiency income Trust plc (SEIT), which is listed on the main market of the London Stock Exchange, which has grown to over £1bn equity market capitalisation. Through a combination of growth of its private equity infrastructure platform and the IPO of the SDCL EDGE Acquisition Corporation (SEDA) on the New York Stock Exchange in October, SDCL is now managing over US$2 billion for investment in energy efficient projects and companies.

SDCL is authorised and regulated in the UK by the Financial Conduct Authority. Further information can be found at www.sdclgroup.com.

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