



FUTURE OF
FINANCE

PARADIGM SHIFT:
POWERING WITH INNOVATION
& FINANCIAL TECHNOLOGY
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Transforming Money and Energy With Technology

Private Roundtable at the Wharton Future of Finance Forum

October 18, 2023

Moderator

- Andrew Marino, Senior Managing Director and Head of Corporate Private Equity at Generate, Former Managing Director and Co-Head of Global Infrastructure Investing at Carlyle

Speakers

- Bob Litterman, Founding Partner of Kepos Capital and Chairman of the Kepos Capital Risk Committee
- Sandra Lee, Deputy Assistant Secretary at the Financial Stability Oversight Council, Former Executive Officer of the Federal Reserve Bank of New York
- Christine Hommes, Partner, Private Equity at Apollo Global Management

Balancing Risk and Reward in Climate-Conscious Investing

- The paradigm of investing is experiencing a seismic shift due to heightened awareness of climate change. Investors, from large-scale institutions to individuals, are recalibrating their portfolios to contribute to a more sustainable future while seeking profitability. This shift involves grappling with the inherent volatility of new, sustainable technologies and initiatives versus often stable but potentially environmentally problematic traditional investments.

- The dilemma surrounding 'stranded assets' is emerging as a central concern. As the world shifts away from fossil fuels, assets once considered valuable are at risk of devaluation, leading to financial loss. However, the resilience of these sectors even post-pandemic demonstrates the complexity of predicting the timeline of this transition. Investors thus face the challenge of timing their divestments strategically while identifying robust and sustainable alternatives to secure long-term returns.

The Urgency of Transitioning to a Low-Carbon Economy

- The need for a low-carbon economy is more pressing than ever, with the window for effective action narrowing in the face of escalating climate events globally. Transitioning requires a multi-faceted approach that encompasses government policy, corporate responsibility, and consumer behavior change. There's a growing sense of urgency to establish comprehensive and effective policies that incentivize green initiatives and penalize high-carbon activities.
- Carbon pricing emerges as a critical tool in this fight, serving both as a disincentive for carbon-intensive lifestyles and industries and a financial stimulant for renewable alternatives. However, the global disparity in carbon pricing and climate policies highlights the complexities of implementing a unified strategy. Leading regions are pioneering through carbon taxes and emissions trading systems, setting a precedent that many hope will be adopted globally.

Investment Strategies in Sustainable Technologies and Initiatives

- The investment realm is recognizing that sustainability isn't a niche but an integral component of sound investing strategies. With this realization, there's a significant movement toward funding enterprises at the forefront of sustainable innovation. These range from renewable energy companies

to startups focusing on energy efficiency, waste reduction, and eco-friendly materials.

- Traditional investment models, primarily based on short-term gains, are being re-evaluated in the context of sustainable investing. Climate-focused investments often require patience, as sectors like clean energy and sustainable agriculture need time to mature and yield returns. There's an acceptance that making these pivotal shifts, essential for long-term planetary health, may require a new approach to risk assessment, valuing future ecological stability as a significant return on investment.

Global Investment Shortfall in Climate Solutions

- Financial experts and policymakers are sounding the alarm on the substantial funding gap in climate mitigation and adaptation strategies. The current levels of investment, both public and private, are insufficient to meet the costs of comprehensive climate solutions. This underinvestment could jeopardize global climate targets and economic stability.
- To bridge this gap, discussions emphasize enhancing government incentives, mobilizing finance on an international scale, and fostering partnerships between public and private sectors. There is also an ongoing conversation about the role of philanthropic capital and the necessity for it to work in tandem with commercial investments to provide the scale of funding required for meaningful climate action.

Navigating Uncertainties and Preparing for Future Disruptions

- The increasing frequency of climate-related disruptions highlights the urgent need for businesses and economies to strengthen their resilience. These disturbances, ranging from extreme weather events to supply chain disruptions, have considerable economic implications and pose risks to vulnerable communities.

- Proactive risk management strategies are being advocated, requiring businesses to adopt comprehensive disaster preparedness plans, secure insurance coverage, and invest in resilient infrastructure. There's also a growing trend towards sustainable urban planning, promoting 'green cities' equipped to handle future climatic and environmental challenges.