cf | private equity

Real Assets and Sustainability Investing Post-2024 Election

by Dan Connell

The 2024 United States election cycle appears to have handed a Republican sweep with control of the White House, the Senate and a slender House majority. With President-elect Trump soon to return to the helm, investors have already begun anticipating the implications for a range of market segments. Across the sectors comprising real assets (ex-real estate) and sustainability, there is everything from expectant exuberance (hello, O&G!) to somber resignation (goodbye for now, U.S. offshore wind...). As is so often the case, reality may ultimately trump expectations. So what can investors reasonably expect, what are some of the areas of greatest uncertainty—and how might investors think about approaching the space?

WHAT TO (POTENTIALLY) EXPECT

All the standard caveats of crystal balls apply here, but let's start with a prospective regulatory outlook and which market segments may see more change and potentially challenges. Offshore wind is likely to be one easy target for the incoming administration as the President-elect has already openly indicated he'll seek to stifle development.[1] Federal control over offshore leasing and permitting could be readily wielded to slow an industry that has adequate challenges already. While growing power demand is expected to amplify pressure on the grid and consumers, offshore wind wasn't expected to be a material contributor and serves as an easy target. Some early stage cleantech funding could be slowed or stopped depending on how grantmaking evolves at the U.S. Department of Energy. Such a change would likely serve to elongate timelines and could serve as a major obstacle for more capital-intensive early-stage companies. One wild card is the outlook for electric vehicle ("EV") policy. Up until a couple of months ago, there was a general expectation that Federal EV policy was likely to see significant tightening under a Republican administration. The late breaking and full-throated involvement of Elon Musk in the campaign and his apparent go-forward involvement with the administration muddles that view. It now seems likely that changes to EV policy will be more muted or mixed. Rather than indiscriminate policy attacks on EVs, there is some belief that the incoming administration may instead target EPA rulemaking on emissions from conventional vehicles.[2] Such a change comes at a time where the industry grapples with a market expectations problem.

There will be a raft of other changes to be sure, but there is reason to expect durability in some regulation. The Inflation Reduction Act is one such piece of legislation. A frequent question over coffee or cocktails is "will the IRA be repealed?" Growing industry consensus and some political evidence suggests it is likely to survive in some form or fashion—potentially with select elements on the margin rolled back and/or spending caps initiated.[3] Job creation from the IRA is heavily concentrated in politically "Red" portions of the country, which may make elements of the bill harder to repeal or even reduce due to likely Republican opposition to such measures.[4] Domestic advanced manufacturing credits play to theme of re-shoring, job creation and resource security – while nothing is ever certain, those would seem to have firmer footing politically. Other elements—particularly those for more nascent industry that are both more reliant on the support and also less advanced in terms of project or job creation—could be easier to eliminate to make good on political promises. Hydrogen economy credits could be one target, though some of those might be favored by the traditional energy lobby which could fight to preserve them (and some think as a result those may prove sticky). The 45V credits for hydrogen producers (those that use renewables, carbon capture or other methods to manage their emissions profile) is believed by industry groups to see some dilution.[5] Rather than eliminate support for the industry, the path to qualification for some form of subsidy may be loosened to better serve traditional energy suppliers. Carbon capture might also appear vulnerable—but here again there could be support from traditional energy interests that might tamp down change. A full roll back of the IRA appears unlikely, but selective reductions and tightening qualification standards seems like a more probable potential outcome.

At this point, it also bears mentioning that while federal policy is of great import in the US, it is not the sole market shaping force. The patchwork of federal, state and local policies that comprise the regulatory framework for all business in the United States inherently provides some diversification and buffer. This isn't to say significant shifts in federal policy can't upend a market—some examples of where that might happen are enumerated above—but there are some industries that will be well served by the inherently diversified nature of that regulatory framework. For renewables broadly, state policy has always played a significant role—and this should be expected to continue.

1 Associated Press, "Trump has vowed to kill U.S. offshore wind projects. Will he succeed?" (November 10, 2024)
2 Bloomberg, "What a Donald Trump U.S. Election Means for Energy - From Oil to EVs, Here's How Trump's Victory Affects Energy." (November 11, 2024)
3 Morgan Stanley, "Clean Tech North America – Election Implications." (November 6, 2024)
4 Bloomberg, "What a Donald Trump U.S. Election Means for Energy - From Oil to EVs, Here's How Trump's Victory Affects Energy." (November 11, 2024)
5 S&P Global, "Hydrogen industry expects emissions rules for U.S. subsidies to loosen under Trump." (November 12, 2024)

> *"Offshore wind is likely to be one easy target for the incoming administration as the President-elect has already openly indicated he will seek to stifle development.*

Setting these mitigating factors aside, it is important to remember that underlying unit economics will also still matter. The levelized cost of energy ("LCOE") for some renewables (utility scale solar and wind, for instance) mean these assets compete and win on fundamentals. At a time where the story has inflected to one of electricity demand growth, supported by the rise of generative artificial intelligence ("AI") and its thirst for electrons, regulators and policymakers are likely to avoid actively dampening the provision of new supply to the grid for fear of stoking inflationary pressure. With electricity demand expected to grow over the next 5-10 years, the market will continue to require a range of solutions. In the United States, this is expected to include both traditional thermal power (particularly natural gas fired power generation) and renewables. Existing nuclear assets will see benefits here as well.

Of course, this isn't only an energy and electricity story. The outlook for tariffs creates a mixed message—it could drive a need for support for some industries with agriculture and critical minerals. In the last Trump administration, trade wars with China resulted in $27 billion in export losses from 2018-2019.[6] A renewed tariff regime targeting Chinese agricultural commodities could renew pressure on these markets. The desire to enhance the United States involvement in the critical minerals ecosystem has been a source of rare bipartisan agreement over the last several years. The Trump Administration is expected to further strengthen this support, potentially through a combination of reduced permitting burdens for mineral extraction and tariffs designed to support domestic processing.[7]

Traditional energy and related infrastructure stands to be a likely beneficiary of more favorable treatment and reduced regulatory scrutiny. One area poised for support is the U.S. Gulf Coast's hydrocarbon export system. The pipelines, refineries and export terminals—particularly for liquefied natural gas ("LNG")—are likely to see significant support and reduced hurdles. On LNG, this could potentially serve to support the upstream market by placing upward pressure on natural gas demand and potentially pricing. In the short term, this could be offset by the potential for downward pricing on LNG globally should the incoming administration seek to drive a cease fire in Ukraine and offer a path to market for more Russian LNG.[8]

While U.S. policy matters, it's also important to remember these markets are fundamentally global. While regulation could evolve and the tone from the White House will certainly be more supportive, the global investment context will remain—as will shareholder pressure to balance production, cash generation and responsible operation. The energy majors and large independent energy companies increasingly dominate the upstream landscape in the U.S. as the market has continued to consolidate. As public companies, they will not be insulated from a broader global push for energy to be more efficient and sustainable—even upstream resources. The upshot? Focus and improvement on emissions management will likely remain a priority for most management teams. These companies will be held accountable by investors with a continued expectation that they balance those factors. For private companies hoping to be acquired by a public company, they will need the right balance of characteristics (cash generation, production, and operational efficiency) to be attractive targets.

6 Barron's, "US Farmers Gird for Trade Wars on Trump Tariff Pledges." (November 9, 2024)
7 Mining Technology, "What a Trump Victory Means for the Mining Industry." (November 7, 2024)
8 Morgan Stanley, "Energy – North America: Impacts of a Trump Presidency." (November 6, 2024)

WHERE TO FROM HERE?

Prognosticating policy is inherently complex and frequently inaccurate. So how can investors navigate the changing landscape? Our default to manage these risks combines an embrace of diversification with a risk management approach centered on policy as an accelerant versus fulcrum. On the former, it can be difficult even in steady policy moments to take rifleshot, concentrated exposures in some subsectors without the ability to build out a comprehensive and diversified portfolio. Diversification by vertical, strategy, stage and geography all can be helpful mitigants of policy risk. With respect to the latter, policy as a fulcrum exposes investments to "stroke of the pen" risk which is exacerbated at moments like this one. Businesses and models that are durable, where incremental support is helpful not essential, can and should be an important part of the underwriting process. The next 12 months is likely to tell a meaningful part of the story on evolving regulation and legislative support (or opposition) across an array of resource, real asset and sustainably themed investment verticals. Diversification and diligence will serve investors well through that period and beyond.

This page intentionally left blank

Important Notes

Certain information contained herein has been obtained from or is based on third-party sources and, although believed to be reliable, has not been independently verified. Such information is as of the date indicated, if indicated, may not be complete, is subject to change and has not necessarily been updated. No representation or warranty, express or implied, is or will be given by The Common Fund for Nonprofit Organizations, any of its affiliates or any of its or their affiliates, trustees, directors, officers, employees or advisers (collectively referred to herein as "Commonfund") or any other person as to the accuracy or completeness of the information in any third-party materials. Accordingly, Commonfund shall not be liable for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any statement in, or omission from, such third-party materials, and any such liability is expressly disclaimed.

To the extent views presented forecast market activity, they may be based on many factors in addition to those explicitly stated herein. Forecasts of experts inevitably differ. Views attributed to third-parties are presented to demonstrate the existence of points of view, not as a basis for recommendations or as investment advice. Market and investment views of third-parties presented herein do not necessarily reflect the views of Commonfund, any manager retained by Commonfund to manage any investments for Commonfund (each, a "Manager") or any fund managed by any Commonfund entity (each, a "Fund"). Accordingly, the views presented herein may not be relied upon as an indication of trading intent on behalf of Commonfund, any Manager or any Fund.

Statements concerning Commonfund's views of possible future outcomes in any investment asset class or market, or of possible future economic developments, are not intended, and should not be construed, as forecasts or predictions of the future investment performance of any Fund. Such statements are also not intended as recommendations by any Commonfund entity or any Commonfund employee to the recipient of the presentation. It is Commonfund's policy that investment recommendations to its clients must be based on the investment objectives and risk tolerances of each individual client. All market outlook and similar statements are based upon information reasonably available as of the date of this presentation (unless an earlier date is stated with regard to particular information), and reasonably believed to be accurate by Commonfund. Commonfund disclaims any responsibility to provide the recipient of this presentation with updated or corrected information or statements. Past performance is not indicative of future results. For more information, please refer to Important Disclosures.

Published November 2024

cf private equity
A Commonfund Company

Darien, CT 06820
New York, NY 10017
San Francisco, CA 94111
London, United Kingdom
Beijing, China

15 Old Danbury Road
Wilton, CT 06897

Tel (203) 563-5490
Tel (646) 348-9201
Tel (415) 433-8800
Tel +44 (0) 20 8126 1628
Tel +86 10 8509 8706

Tel 888-TCF-Main
Tel (203) 563-5000