

## Frontier International – Facing the climate change Rubicon

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Mother nature's increasing destructiveness, highlighted by severe natural disasters worldwide, is a stark reminder of the pressing need to address climate change. Compounding this, the real estate industry remains the largest emitter of CO<sub>2</sub>, with carbon emissions exacerbating the environmental crisis. All private markets have a role to play in assisting and addressing climate change and achieving their net zero carbon (NZC) goals to meet their Paris Agreement.

During a recent trip to Toronto, and across the US, we observed significant advancements in the private equity (PE), real estate (RE) and hybrid fintech/proptech sectors. Several billion dollars are being directed toward sustainable solutions such as clean steel, green cement, solar energy storage and alternative energy and technological solutions. It is clear that a significant portion of corporate America remains deeply committed to mitigating climate risk and avoiding financial fallout, with investment strategies focussed on enhancing climate and asset resilience.

However, Trump's administration poses a threat to progress made on reducing carbon emissions, and corporate political coalitions are likely to challenge potential rollbacks of environmental policies. Despite this, we believe achieving climate change commitments requires active engagement in multiple areas, including private equity and real estate, with a flexible approach to sector allocations.

Our comprehensive paper explores how managers are using various strategies to tackle sustainability, such as retrofitting buildings and investing in climate-focussed innovations. One manager, for example, adopts a 'climate-as-a-sector' approach, targeting clean energy, sustainable materials and negative emissions. Similarly, real estate managers have been focussed on decarbonisation strategies, with a particular emphasis on reducing CO<sub>2</sub> emissions through energy-efficient designs, building materials and green technologies. Climate change commitments can be achieved via a few approaches such as private equity or real estate. We are agnostic about the sector allocations but strongly believe a more active approach is required in multiple portfolio areas.

The paper also discusses the growing regulatory landscape, citing New York City's Local Law 97 as a case where building owners are forced to meet new carbon emissions standards. We explore how government policies, including tax incentives and mandates, are shaping the real estate sector's approach to sustainability. We also highlight the role of data in evaluating investment opportunities, with tools like FEMA's National Risk Index helping managers assess climate risks at the asset level.

Another focus for Frontier is data centres, which are vital and in high demand given cloud computing and AI growth. During discussions with managers experienced in working with hyperscalers and infrastructure operators, it became clear data centres present unique opportunities and risks within the real estate/infrastructure spectrum. Sustainability is another major consideration for this sector. Frontier's property configuration advocates a reasonable allocation to data centres. We strongly recommend engaging with Frontier to assess the opportunities for your portfolio.

Frontier has been in dialogue with a broad range of managers and there are a multitude of strategies with different risk/ return profiles that could meet the diverse needs of investors. We can help you assess the health of your portfolios, suggest re-balancing solutions and identify new opportunities.

We plan on monitoring the potential impacts of Trump's administration policies across a range of areas including climate change and sustainable investments over the next several months. If legal challenges emerge (and are very likely to), we expect to revisit the landscape and update our views.

If you have any questions or want to access the full paper, please contact us. Frontier clients can access the comprehensive research paper instantly on Frontier's Partners Platform.