

Brookfield's story: Being part of the decarbonisation solution **Baringa's Climate and Sustainability Trailblazers Podcast**

Emily Farrimond [00:00:02] Welcome to our Climate and Sustainability Trailblazers podcast with me, Emily Farrimond. Today, I'm absolutely delighted to be joined by Kelly Goddard, Chief Sustainability Officer of the Renewable Power and Transition Group at Brookfield Asset Management. I'm also delighted to be joined by Anya Davis, who heads up our Energy Markets Advisory and Analytics practice at Baringa. Welcome, Kelly, and thank you for joining us. And can I say how excited we are to have you on our podcast. At Baringa, we're delighted to be working with Brookfield, a major player in the transition to a low carbon world, and we're excited to hear more about your strategy to decarbonise, and in particular the recent proposed Origin Energy investment. So let's get started. And I want to start by learning a little bit more about you, Kelly. Could you tell us more about your personal and professional interest in climate and sustainability?

Kelly Goddard [00:00:57] Great to be here today Emily with you and Anya to talk a bit about sustainability and decarbonisation. It's clearly a personal passion and also one where I have the luxury of having a role that mirrors that passion. I've been in sustainability for almost two decades. I've been with Brookfield for about two years and prior to that I spent my career with a European major energy company delivering sustainability and our operations and projects around the world, and then leading sustainability at the corporate level, including working with the company to set their net zero targets.

Emily Farrimond [00:01:39] Fantastic. Thanks for sharing that with us. And over to you Anya, I'm really interested to hear about your personal and professional interest in climate and sustainability.

Anya Davis [00:01:48] Marvellous. Thank you, Emily, and wonderful to be on the podcast with both you, Kelly and Emily, to talk about this today. So I have spent the last 20 years of my career in the energy industry and in the last ten years, we would probably call that, more focusing and supporting the energy transition. And I am extremely fortunate to work with this amazing, talented team that works with governments, policymakers, investors and corporates in working out and navigating their transition to decarbonise the economy.

Emily Farrimond [00:02:23] First question I wanted to ask you Kelly was really around strategy. And Brookfield, I think is a really, really exciting organisation who've made a number of high profile investments in carbon intensive assets, specifically with a purpose to decarbonise those rather than simply divesting from the market as we've seen many others do. We really interested to hear from you, Brookfield's transition strategy for those who aren't aware of it, and also a little bit more around your investment decision considerations such as the regions, sectors and asset types specifically that you're focussed on.

Kelly Goddard [00:03:00] Well, maybe I'll start by talking a bit about Brookfield Asset Management and our focus on decarbonisation at the company level. And really we're focussed on two key areas. Operationalising decarbonisation across our whole portfolio and as you mentioned, investing in transition. With regard to the first area, operationalising decarbonisation, we are signatories to the Net Zero Asset Management Initiative and have a target to achieve net zero emissions across our whole portfolio by 2050 or sooner. We've also set an interim 2030 target, and we plan to build on this over time. So that's at the

Brookfield Asset Management level and that's across our portfolio of renewable and transition real estate infrastructure and private equity. But we are also investing in transition, including in carbon intensive assets. And this is really through our Brookfield Global Transition Fund or BGTF. And this is the part of the business I sit in, so the focus of my participation today. And within BGTF, we are solely focussed on decarbonisation. We see a huge need and opportunity on really decarbonising the energy sector and that's because over 75% of the world's emissions can be traced back to the energy sector. So we see the single most effective way to address global emissions is to target this sector. And importantly, we also see momentum with governments and companies. They continue to set net zero targets and provide incentives in this space. I think the last number I saw was about 8000 companies have now set net zero targets and that continues to grow. Those companies are looking for partners with deep technical expertise and capital to support them in meeting their own targets. And we feel like this is a natural fit for us. We've been in the renewable development and operational space for many decades, and we have about 3500 employees on the ground that deliver development and operational aspects of renewables today. The fund itself has a dual mandate, which is a key aspect of the fund. We want to deliver strong financial returns as well as a measurable impact. And importantly, we also have a focus on additionality. So we identify the contribution we can make specifically through our capital and deep expertise to have a change over and above what would have happened without our participation. We have a focus on three themes, and the first is business transformation. We want to go where the emissions are and partner with carbon intensive companies to help reduce those emissions. The second theme is additional renewable capacity. So we are investing in adding renewable capacity to the grid. And the third theme is sustainable solutions. So these are solutions or services that are necessary to facilitate the energy transition, areas like carbon capture and storage, renewable natural gas, recycling. Within our first fund, we raised £15 billion. We closed that fund in 2022 and we have deployed or committed the vast majority of that fund. And we think this is in a relatively quick period of time which demonstrates the opportunity set there is to invest in transition. And we've already been out to market to launch the second fund, again showing the opportunity there is to invest.

Emily Farrimond [00:06:42] Thanks for sharing that. I'm really interested to hear a little bit more from you about how you're balancing that drive to meet net zero with the transition strategy, and then also delivering the returns that the market expects of you.

Kelly Goddard [00:06:58] Sure. Well, as I mentioned, our transition strategy in BGTF is focussed on decarbonisation and net zero, so we see this as one and the same thing. But we thought it was important that we have a credible approach underpinning this strategy that would ensure that impact is deeply embedded into each of our investments, that we track our progress and that we report transparently to our investors. So in order to do this, we did develop an impact measurement management framework, or IMM, to provide a consistent and transparent guideline on how we set, measure and report on the impact component of the fund. We consider impact at the earliest stages, along with the financial returns, and it's really the investment teams that do this. For each of our investments, we set interim and long term targets that are transparent, quantitative and verifiable. We set these using third party guidance and scientific pathways where relevant. So importantly, we don't have an internal basis that we set these impact targets on. We rely on the external guidance and pathways to set our targets, and that provides transparency to our investors and it holds us accountable to our goal of investing aligned with the Paris

Agreement. Post close, we integrate these impact targets into the business plan. So again, the business plan will entail both the return targets as well as the impact targets, and then we regularly monitor these and report transparently on a quarterly basis of those targets to investors. On an annual basis, we report comprehensively on our greenhouse gas emissions and have these assured by our financial auditor, again, demonstrating the focus of the financial returns and the impact terms having the same amount of weight.

Emily Farrimond [00:08:55] Just interested in hear a little bit more from you about the importance of Brookfield's role in decarbonising the real economy.

Kelly Goddard [00:09:03] I would say first we do focus on proven technologies and focus on areas where our large scale capital and deep renewable energy markets expertise can make a measurable decarbonisation impact. And just to put this in a bit of numbers, so BGTF invested in additional renewable capacity, including in three leading US developers, and we have a total target to build out approximately 35 gigawatts of new renewable capacity. And I get asked a lot "what's a gigawatt?", "what's that equivalent to?" So 35 gigawatts is equivalent to avoiding about 55 million tons of greenhouse gas emissions. And that is about, a bit more actually, than all of New York City's emissions. So building out that amount of capacity avoids 55 million tons, equivalent to more than New York City's emissions. And how does that additional capacity help to decarbonise the real economy? Well, as we develop renewables, we sign power purchase agreements or PPAs with customers to help them meet their decarbonisation goals. We have about 900 customers, including some of the largest renewable purchasers in the tech space, for example. But we also importantly provide renewable power to our Brookfield businesses and signed PPAs with our real estate assets, for example. And today I'm sitting at Canary Wharf, and we've signed a PPA with Canary Wharf Group to provide 70% of its energy from a Brookfield developed wind farm in Scotland. So that's an example of taking our targets and then turning them into decarbonisation of the real economy. In addition to renewables, we've also invested in decarbonisation solutions such as CCUS renewable, natural gas and recycling, and have similar impact targets associated with those. Again while critical and very important to continue investing in renewables and sustainable solutions, It's not enough. We also have to take action to reduce emissions. So we have made investments in carbon intensive utilities, again with targets aligned with scientific pathways, and those targets aim to reduce millions of tonnes of emissions in the medium term.

Emily Farrimond [00:11:27] Brilliant. Thank you for sharing all of that Kelly. I just wanted to talk to Anya for a moment and thank you very much for taking the time to join us today Anya. I'm just interested to get your perspectives on the energy market and specifically the opportunities and challenges you're seeing for energy transition funds.

Anya Davis [00:11:49] Thanks Emily, and great to hear you talk on the subject Kelly as well. So I think we're seeing a lot of interest in investors moving capital into energy and the support of the decarbonisation agenda. I think for me there's some upsides and some downsides that we're facing into that. There's one which is around the governmental support, so actually having a sustained set of policy and regulation, and that differing in different geographies. So obviously there's been a lot of news and focus on the IRA in the US. I think the UK has kind of come out and quite early established some views around their policy commitments and GCC for example, as well having some quite high commitments and high ambitions. I think there's definitely a challenge there around can governments hold their nerve and maintain some of those commitments on the policy environment, so that investors are confident in moving capital into those geographies over the medium to long term. I think the other thing that's really interesting when I speak to my

clients, is desire for infrastructure funds like yourself to move capital into the area, but often finding it hard to find places for big ticket sizes where they're used to having deployed capital in that matter, and obviously their stakeholders understanding that. So I think as we look for developing maturity and proof points around biomethane, for example, it's really hard to find big projects that have significant size where people feel comfortable in deploying capital with regards to the risk and the maturity of that technology, and you mentioned that briefly Kelly, as well around your investment thesis. I think for me, this is where we may see the funds taking a sort of leaf out of some of the PE books, where actually developing platforms for roll up and actually building areas where there's significant volume and desire to deploy capital, but having actually to take on a number of different projects in a particular theme. So, we've just seen I think it's Goldman Sachs make that commitment of \$1,000,000,000 into Europe around following biomethane. But obviously that's going to have to be over a number of different projects and actually getting an understanding of where they are in the maturity and the confidence around some of those projects coming through.

Emily Farrimond [00:14:14] And Anya, are you seeing any notable differences regionally in terms of how transition is unfolding and the shift towards greener asset portfolios?

Anya Davis [00:14:26] Yeah, and I think it would be interesting Kelly to bring you into this because I think operating at an international level, there are different paces at which different regions are operating. And I think back to that governmental support and commitment and that stability around policy, but also actually the pace in which some of the economies can untangle themselves from a carbon based economy. So if I think about the African nations and how intertwined they are into oil and gas, I think that may take some a different pace and some patience involved in the projects that people put into and then the capital put into versus perhaps a northern European perspective where perhaps more confidence in moving forward and perhaps a little bit more drive and ambition over a much shorter time. And I think some of that is going to be underpinned by the local populace's desire to see the pace move as well.

Kelly Goddard [00:15:24] I think for us, again, with the cost of renewables going down globally, there is a market for developing renewables. I think to your point, for more decarbonisation solutions, yes, it's helpful to have government incentives behind it. And you know, we've seen that in the US, we saw it in California for example, supporting CCS before IRA came in. And again, with IRA, we expect technologies such as CCS, hydrogen to be more attractive investments. So I support what you said, but again, government incentives are helpful, but I would say not necessarily worth waiting for them in all technologies and all markets. And I mentioned we invested in three large US developers in renewables, we did those all before IRA was in place. So, there are opportunities to make investments across technologies, but again, incentives always help that.

Anya Davis [00:16:23] Kelly just on that, are you almost betting on some of those incentives coming through, or are you comfortable that those investments actually wash their face without changes in governmental support?

Kelly Goddard [00:16:34] Now to use those three examples that we made in the US before IRA came in place. Again, those were underwritten along with the dual mandate, strong risk adjusted financial returns and a measurable impact. Again, IRA coming is upside for those investments. But that being said, I do think there are investments that become much more financially attractive with incentives. So, I would say it's a bit of both Anya. Of course, we model that where they're in place, but we're not betting on those as

part of a scenario when we do our underwriting. They're either in place or they're not, and our underwriting needs to meet our mandate regardless.

Emily Farrimond [00:17:15] Thank you both. Just back to you, Kelly, I'm really keen to explore that Brookfield LED consortium that's invested \$12.5 billion in Origin Energy. And for those who aren't aware, Origin is Australia's second largest energy generator and retailer, which has a reasonably high carbon footprint, not least due to its current energy mix, which includes coal based generation. So I know you've explained this through the strategy, but appreciate for some it might seem like a counterintuitive move given some of your net zero commitments and the role we've articulated around real world decarbonisation. Can you help us understand a little bit more about your plans for that business?

Kelly Goddard [00:17:57] I'm very excited about our investment in Origin – our planned investment in Origin. It's a great business and it will have a measurable impact. With our institutional investors, as you mentioned, we have a plan to acquire Origin Energy's energy markets, Origin Energy' markets business is the largest generation of retail business in Australia, and it is an attractive, large scale opportunity. It has a great management team. I had the pleasure of going and meeting with the management team and going and seeing the sites and it is a fantastic business. It's a high quality platform and a great impact in decarbonisation opportunity as well. Currently almost, as you mentioned, half of Origin's power generating capacity comes from the Eraring coal fired generation plant, which is one of Australia's largest coal fired plants. And our business plan includes investing between \$20 and \$30 billion AUD in renewables and storage to build out 14 gigawatts of capacity. By doing this, this will enable the retirement of our Eraring without compromising grid stability and significantly reducing Origin's emissions. By executing these plans, we're not only supporting Origin's decarbonisation, but we're also supporting Australia in meeting their 2030 targets as well. I think it's important to say that again, we think this is great for impact, also great for business by transforming the business. We believe that it will be one that is derisked, more flexible and better positioned to capitalise on new and emerging market opportunities. So again, a great opportunity from a business perspective, but also from an impact perspective.

Emily Farrimond [00:19:38] Anya, just keen to bring you in as well again here, just to hear your perspectives from what you're seeing in the market. How does the Origin deal compare to other deals that you've seen recently, both in terms of the relative size but also in terms of the potential environmental and social impacts?

Anya Davis [00:19:58] Well, I think it's quite material. It's highly impressive the scale and the level of commitment, as I've been sort of calling it, this sort of brown-to-green transition. And I think what's becoming interesting as I speak to your peers, Kelly, as well, is that there's now a real desire, it's not just deploying capital. I think there's this, and you set it up in your intro, skilled, and understanding of technology, a bit of patience as well, and understanding of the risk that sits underneath deploying some of these technologies and how to do that in a skilled way. And I think this is going to become really interesting for what I think are assets that have the ability to go from brown-to-green will become quite highly sought after if investors are looking for ways to deploy capital and to be able to satisfy their stakeholders for not only returns but also to be able to demonstrate their decarbonisation commitment. And so I think this is going to be interesting actually for asset managers and investors to actually know that it's not just moving money around and putting money to work, it's actually this business transformation that will also need to be

supported alongside. And I think that's an interesting insight for investors that they will need to start understanding the technology, they'll need to understand genuine business transformation that sits around here and how long that journey takes of cultural awareness and leadership development alongside putting money to work as well. So I think it's an interesting development for investors as the race to deploy capital will become more sophisticated, I think, in how they're deploying capital and how they're taking and supporting organisations on that journey.

Emily Farrimond [00:21:36] Thanks for this perspective Anya, and I had a bit of a sentiment check that I wanted to do with both of you. I feel, particularly at the moment, we seem to be working really, really hard to decarbonise, but we've got a really, really interesting political backdrop in a number of geographies. We're seeing severe weather events at the moment. Currently in particular, the media is full of wildfire news, it seems. I'd be really interested in both of your perspectives around what is it we can feel positive about in terms of transition and how we're progressing? And where do you feel further focus is required? And Kelly, I'd love to hear from you first and then Anya.

Kelly Goddard [00:22:18] It's positive in and some days it's daunting, the scale of the challenge we still have ahead of us. But I would say I am an optimist. I think you have to be an optimist to be in this role, but also because there's real quantitative tailwinds to the transition. I mentioned the number of companies continuing to set targets and looking for partners to develop concrete plans. And we engage with companies like this all the time. So, it's exciting to see the commitment that we're seeing from major corporations that have significant footprints in their commitment to decarbonise and looking for solutions to help them meet their targets. I would say the price of renewables, the cost of renewables continues to come down. We're seeing all the studies in IEA showing the forecasts for renewables and the investment estimated, for example, in solar, which is due to outpace oil and gas. So, there are real tangible, quantifiable reasons to be positive. The other one is energy security. With the war in Ukraine, companies continue to be focused on energy security. Again, renewables is the obvious way to provide that security. And then we're seeing incentives around the world to put in place. And Anya mentioned IRA, again, IRA is a great example and we're already seeing the momentum and that being put in place and several other countries are following that. So, I would say there are a lot of tailwinds happening, which is great and a lot of action. What would I say we need to do more of? I do think and I mentioned this already, in addition to the renewable development, which is critical, we need to really start tackling emissions and reducing real emissions from the economy, designing out emissions that are coming out from other projects. Again I think it's been more and more recognised with some of the standards as well, such as GFANZ and others talking about managed phaseout of carbon intensive assets, really understanding that in the ecosystem to allow investors to have that strategy so if emissions go up, there's an understanding that they're going up in order to invest for them to come down and then just getting after it.

Emily Farrimond [00:24:44] Thanks. And what about your thoughts Anya?

Anya Davis [00:24:47] I think I am a little schizophrenic on it. It depends what day you ask me this question Emily, you might get a different answer. But today I've obviously woken up on the right side of the bed and I'm feeling pretty positive actually. And I appreciate the backdrop of what's going on, on the news and the politicisation of it actually. I think it's been quite interesting in the UK and the local by election of what happened in some of the London boroughs around actually tackling the Low Emission Zone and whether there's

genuinely the populace who were voting based on that. And I think that becomes quite interesting actually, do we think what will the narrative slow down because of the political time frames and cycles that are in play? But I guess for me, the things that make me feel positive are that I see money moving into this space. I think there is real commitment and it's not just people saying it, money is moving into organisations, assets, businesses and it's being deployed and it is making a difference. And we're seeing big named organisations not just feeling like they should say something but actually putting their money where their mouth is. And I think that we'll see that happening more and more and that not being about optics, but actually because it is returning shareholder value. So, I'm excited by that. I think though what was horrific with the challenges in Ukraine and the monumental shifts that have had to take place and rejig post what that meant for the energy system in and around Europe. I think that should actually give us confidence that we can act with pace and we can respond. And I think it's when parties are galvanised around something quite significant, things can happen. And you can see what has taken place in Germany in response to their reliance on energy coming through from there, and they've made huge shifts in that, not only being from their geopolitical point of view and a corporate perspective, but actually also from a nation and the individual response that they took to reducing their demand. So I think that shows that the will of people coupled with purpose makes a huge difference. And the other thing I'm quite excited about with my daughter who's only nine, but how this is now a regular discussion in our household and her talking about what she wants to do when she grows up is absolutely tied to this. And I see this in our own business as well. We have amazing young talent coming into the workplace with a huge desire to make a difference and drive purpose and putting their talent to making a shift to decarbonise. And so I think coupled to that, when you can couple that with money, and a drive from actual society watching it, I think we should have a lot to be positive about.

Kelly Goddard [00:27:43] Emily, have we managed to convince you that the glass is half full?

Emily Farrimond [00:27:46] I think I started on a morning where I was feeling like the glass is half empty. From my perspective, I think it sways probably hour to hour, minute to minute, day to day, definitely. As you know, you see very positive momentum in some geographies. Sometimes you see really quite negative political rhetoric, I think, which is the thing that worries me. And particularly Anya talked about the by election piece in the UK, and what concerns me in particular is actually whilst we're all here doing what I think is well, well you are all doing brilliant work frankly, the degree to which individuals making individual choices on a daily basis about their consumption, the companies that they want to purchase goods and services from and who they want to have their relationships with, I think is a massive challenge for us as a society. I think that without some of that demand pull coming from individual consumers and in some cases corporates, I still feel like we've got a big mountain to climb. That's what concerns me.

Anya Davis [00:28:53] Just on a micro point, I've now stopped getting taxis around to see my clients that I've made my poor team, we're all cycling across London on our Bromptons and on our Lime bikes yesterday, so we're kind of the micro changers. But I think that was an interesting one actually, that example, because as Baringa we're actually now going forward into next year's business planning, and we will have our emissions per business unit and with the targets around reduction. And so I think this is making it real. So I've spent sort of the last ten years of my career helping other organisations decarbonise, and now I've got to do that with my team and they were most unhappy because it started

raining on the route. I think these are small changes that we kind of need to start getting into our day to day lives.

Emily Farrimond [00:29:42] Yeah, and great to hear that you've demonstrated some best practice, and I know that our carbon budgets are certainly causing lots of conversations within our business and lots of reprioritisation, but that is in no way a bad thing. Thank you both for your perspectives and it's really nice to hear a positive outlook, so I really, really appreciate that from both of you. Anya, actually your point around acting at pace really resonated with me as well, in terms of when we need to, we absolutely are able to and we just need to increasingly do that, particularly in the climate space. If we can respond to the challenges associated with Ukraine, then there is precedent for us to be able to do that. I just wanted to say thank you to you both. I am really grateful that you've taken your time out of a busy and frankly, what are critical roles to share your perspectives. Personally, I've really enjoyed our conversation and I'm sure that our listeners will do too. I'm sorry to say we've run out of time for today, but Kelly, it's been an immense pleasure having you on our podcast. It's been really insightful and I'm certain your views will resonate with our listeners. Anya, also many thanks to you for joining us, and thank you as well to all of our listeners. If you've enjoyed our podcast, please do follow, like, share and also look out for future instalments of the Climate and Sustainability Trailblazers. We've got some really exciting guests in the pipeline who will bring equally as unique perspectives on the markets that they work in. And if you have any feedback, then please do share that with us as well. Thank you. Thank you both.