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## How To Invest In The Energy Transition Now



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Energy



BERGHEIM, GERMANY - Germany is maintaining ambitious goals for transitioning itself away from its ... [+]

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In the past few months a pandemic, the scale of which has not been experienced in a hundred years, has swept across the globe. In the resulting economic carnage and financial volatility, crude oil prices slipped [below zero](#) before staging a rebound and stock prices have gone from shocking lows to new highs, for now. Government incompetence in response to the virus and long-standing historical inequities have led to socio-political unrest as thousands have taken to the streets to protest a myriad of injustices around

the world. The many challenges facing humankind, from pandemic to racial injustice to emerging fascism are front and center and investment strategy may not be the first consideration that comes to mind.

Yet from this chaos emerges a clear-eyed view on the [market](#) that reflects an understanding of the new reality of life on this planet as companies, project developers, private capital, institutional investors and public markets are rapidly shifting toward sustainable practices, assets, and businesses. As the world is in flames, both figuratively and literally, activism has become action and capital deployment is many steps ahead of many governments, including the current United States administration, in recognizing that human activity must adapt rapidly.

One need look no further than the ambitious carbon neutral or negative pledges that have made the headlines so far this year. [Microsoft MSFT -0.8%](#) pledged to be carbon negative by 2030, [bp](#) net zero by 2050, [Horizon Organic](#) carbon neutral by 2025, and [BlackRock BLK +1.7%](#) announced it would be wholly reallocating capital towards sustainable and purposeful investments. More than two dozen global institutional investors representing \$5 trillion assets joined to form the [UN-convened Net-Zero Asset Owner Alliance](#), aligning portfolios with the Paris Agreement. These are major leaders in the technology, energy, agriculture, and financial sectors (as of the last quarter of 2019, BlackRock held [\\$7.4 trillion](#) of the world's assets). The list is growing and will only continue to grow.

There is good reason to believe that these pledges are not mere public relations maneuvers—or “greenwashing.” Climate initiatives have become [primary concerns among C-level executives](#). Many companies have already made first steps in line with such pledges. In July Microsoft successfully tested [hydrogen for backup power](#) at data centers, and [bp partnered with JinkoPower](#) to develop integrated decarbonized energy solutions in China. BlackRock has

already taken [voting action](#) on companies “making insufficient progress integrating climate risk into their business models or disclosures.”

Project developers are also starting to piece together technologies to construct large scale, low-carbon industrial facilities. Air Products [APD +0.5%](#) announced plans for a [\\$5 billion green hydrogen plant](#) in the Kingdom of Saudi Arabia. Snam is making considerable progress [bringing hydrogen energy to industrial customers](#) in Italy. The shift is reflected in—or perhaps partially driven by—retail investors who self-manage retirement funds. Capital flows towards [sustainable ETFs steadily grew](#) at nearly \$1 billion per week in the first quarter of 2020, while traditional ETF funds experienced a volatile decrease.

In addition to the climate action, health and social justice goals that underly an energy transition strategy, investors are also finding solid, significant financial benefits of sustainable investments consistent with energy transition policies. In both three and five year time frames, the majority (around 65%) of [ESG funds perform in the top half of the market](#), providing greater returns to their investors. During the first months of the pandemic, [94% of sustainable indices outperformed](#) their parent benchmarks.

What 2020 has taught, among other things, is that uncertainty, volatility, and instability abound. COVID-19 is not the first nor last pandemic, nor the first nor last system-wide shock. 2020 has reinforced investors' desire for assets that are less correlated to the general economy, that will perform through market disruptions, large and small, and that are aligned with the the mega-trends that will dominate human activity and the economy for decades to come, regardless of market condition, including climate change, urbanization and the further growth of developing markets.

Infrastructure generally, energy more specifically and [energy transition](#) assets and businesses in particular are ideally suited for this strategy, although they

are widely misunderstood as limited to traditional renewables, wind and solar energy—asset categories that are over invested and, frankly, expensive relative to many other options. Energy transition assets and investments can take many forms that can achieve low risk investment profiles from traditional “project finance” structures.

Investments in this sector can be implemented with risk-mitigation strategies such as long-term use agreements with credit-worthy counterparties to hedge short term shocks while accumulating long term appreciation in line with the paradigm shift to a lower carbon future with assets of many forms besides the well-recognized renewables space. These include facilities that provide “blue” products which are produced with [carbon capture and storage \(CCUS\)](#).

Indeed, besides the energy transition fuel uses of blue hydrogen and blue ammonia, CCUS has the potential to reduce CO2 emissions from many industrial and agricultural processes necessary for modern life on the planet including the production of steel for housing and other uses, [fertilizers](#) that account for rich agricultural yields and plastics and metals that are found in most of the objects around you right now. These industrial processes account for [more than a fifth](#) of global carbon emissions. Storing carbon dioxide deep in the ground has been encouraged by government incentives such as the United States’ 45Q [tax credits](#). In addition, there are hundreds of innovative companies that are employing CO2 utilization methods for products such as [concrete](#) and [polymers](#).

Waste to energy can be another low-risk, stable return sector that fits into the energy transition model. Waste is an inexpensive fuel and often poses a [health and environmental threat](#) when carelessly disposed of or landfilled, particularly when waste containing heavy metals is landfilled risking contamination of precious drinking water aquifers. Many government programs encourage the reuse of waste for fuel such as California’s [Low Carbon Fuel Standard](#) program.

As with tax incentives for carbon sequestration, government policy supports these growing industries alongside investor and consumer demand. Indeed, carbon tax plans, as have been adopted by several governments around the world, generally shift the balance of business and investment in favor of low and lower carbon activities in general.

Offshore wind is the more adventurous sibling of onshore wind, but with less noise and aesthetic pollution for communities. American states on the East Coast have led the drive for offshore wind development plans to achieve ambitious renewable energy targets, while the EU has been many steps ahead in the sector for a quite some time. With strong governmental support and [PPP](#) opportunities on offer, offshore wind will be a [major player](#) in the energy transition for decades to come.

Advanced [battery technology](#) may appeal for a tech/venture capital bucket. At the other end of the risk spectrum simply incorporating existing battery technology or inexpensive solar panels at an operating gas fire power plant or optimally selecting manufacturing facility locations and material suppliers to shorten carbon-heavy transportation distances are actionable strategies for any business model. Traditional real estate portfolios can provide enhanced value from [energy efficiency](#) programs.

The energy transition is happening now. While exact policy plans will vary country to country, change is already afoot as the consensus opinion is that the coming decade is critical for slowing warming. The economy of the energy transition is both immediate and long-term, as much change can and will take place in the immediate future but it will also take decades for the complete transition to occur, so energy transition is both a necessary current driver of asset allocation in portfolios, large and small, and also among the largest fields of business opportunity for the future. The time to invest in the energy transition is now.



SONGXI, CHINA- A worker at Xinyi photo-voltaic power station on August 21, 2016 in Songxi, China. ... [+]

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