

Energy Transition

Capturing the decarbonisation growth opportunity



A century ago, noted investor and trader Jesse Livermore observed that “the big swings make the big money,” and today his observations on markets and psychology are as relevant as ever. Our world is undergoing waves of structural change that will recalibrate the definition of business as usual. Yet, **how do investors capture these changes and turn them into positive investment outcomes?**

Bill Gates has explained the urgency of net zero emissions through the analogy of a running bath that will eventually overflow. Net emissions have to stop – not just be curtailed - as even a trickle of water from the tap will inevitably be disastrous. Last week, a study by Swiss Re found that if no mitigating action is taken, global temperatures could rise by more than 3 degrees Celsius and the world economy could shrink by 18% in the next 30 years.

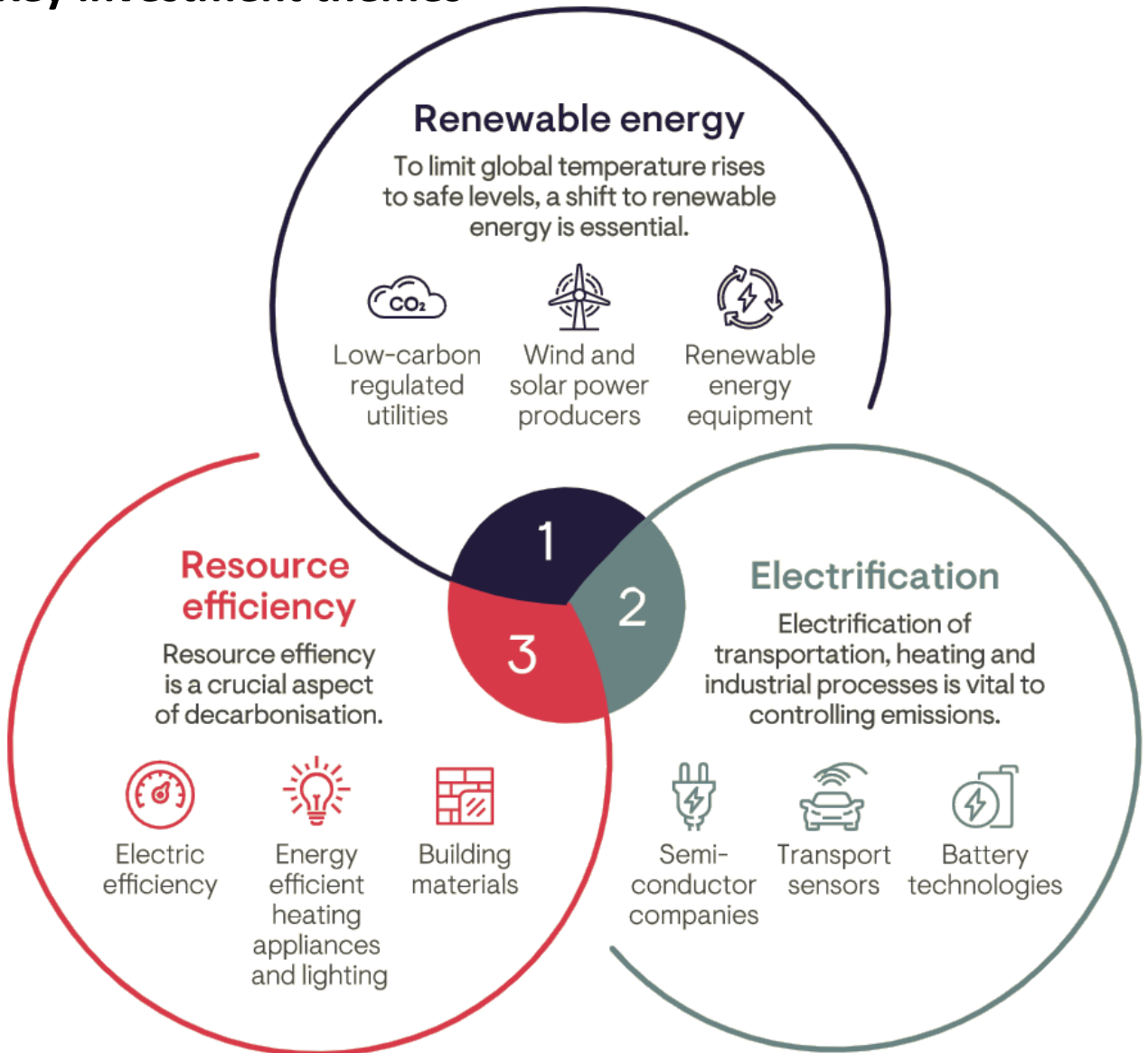
We are at the beginning of a great energy transition, from a system based on fossil fuels to one based on renewable-energy sources. In 2019, renewables accounted for approximately 72% of all new capacity additions worldwide. This is driven not just by a desire for safer and cleaner sources of energy, but also cheaper ones. Renewable energy technologies follow a learning curve, meaning that as cumulative installed capacity increases, price per unit of output falls. This has driven exponential declines in the cost of renewable energy sources such that they are now among the cheapest sources of power. By contrast, no such learning curve exists for fossil fuel-based sources (or nuclear), meaning that this cost differential will only expand.

To combat climate change, reduce carbon emissions and transform to a low carbon economy, the world needs to invest USD2.4 trillion per annum.¹

¹Source: *Climate Action Tracker Project, 2017, UN IPCC estimates, 2016–2035*

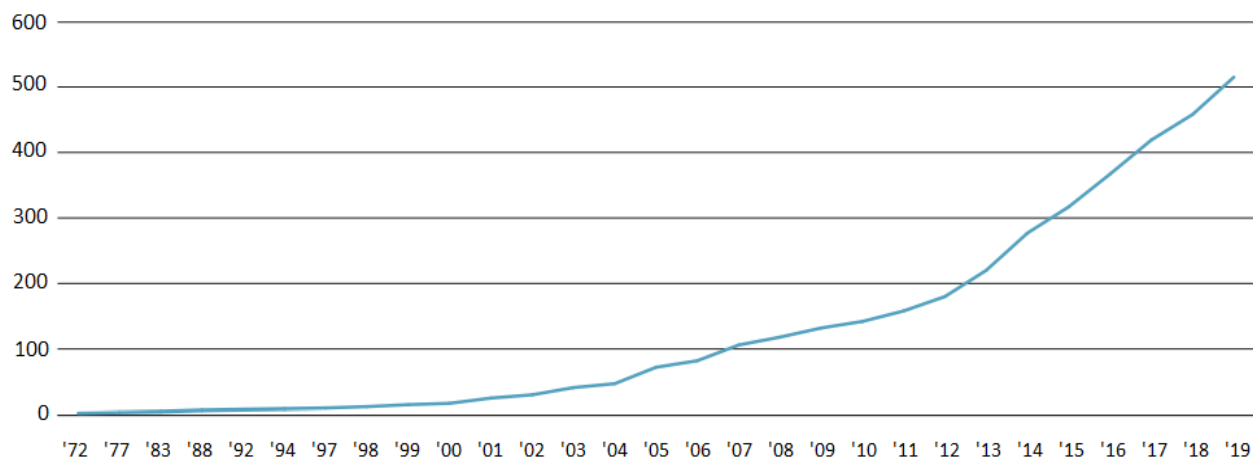


Key investment themes



- Biden’s plan would see infusion of more than USD350bn (~15% of the 2.25% of the fiscal package announced) directly into clean energy – driving electric-vehicle infrastructure, reinvigorating the electricity grids and boosting R&D – plus an estimated USD400bn extending and expanding tax credits for clean energy generation and storage;
- Regulators are playing a central role in incentivizing businesses to focus on environmental, social and governance issues through policy and spending priorities.

The rise of regulation - Cumulative number of sustainable finance policy interventions per year globally



Source: PRI responsible investment regulation database: <https://www.unpri.org/policy/regulation-database> Data as of June 2020

- The energy transition is a USD90t opportunity from 2019 to 2050 (according to the International Renewable Energy Agency), where with every year of further technology innovation and policy support, the investment opportunity set continues to improve as some growth opportunities are de-risked, and new growth stories emerge;
- According to the UN, around 110 countries, responsible for more than 65% of global carbon dioxide emissions, have made ambitious net zero commitments to date. Many have pledged carbon neutrality by 2050, while China says it will do so before 2060;
- Analysts expect electric vehicles to account for 35% of the market by 2030, driven by better-than-expected sales and the US infrastructure bill. The Biden administration is planning to multiply its network of charging stations five-fold as part of its eight-year infrastructure spending programme.

Investing in already-sustainable technologies is not enough: we need to focus on best-in-class firms transitioning to carbon-neutral business models. The transition to a net-zero economy offers unprecedented opportunities for investors. We invest in companies leading this transformation. For more information kindly contact us.

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