ifpas

INSURANCE AND FINANCIAL PRACTITIONERS ASSOCIATION OF SINGAPORE

Tuesday Times #77

RESPONSIBLE FINANCIAL PLANNING FOR A GREEN FUTURE:

Investing on Renewable/Clean Energy

(Part 1)

16 NOVEMBER 2021, ISSUE NO. 77

TUESDAY TIMES

ifpas
INSURANCE AND FINANCIAL PRACTITIONERS ASSOCIATION OF SINGAPORE

Responsible Financial Planning for a Green Future:

Investing on Renewable/Clean Energy (Part 1)

ESG [Environment, Social and Corporate Governance] investments, also known as impact or sustainable investing, has been trending, due to its priority on economic/social sustainability and ethics.

The Covid-19 crisis in particular brought a multitude of young investors onto the stock market, who lean more towards investments with ESG rather than investments focused purely on profits. Such a concept where profit is not the primary factor for investing is not new in the history of investing. For example, hedging with options, forwards or futures often puts capital gains away from the focus on investing.

But a key area in ESG Investing that has had the potential to contribute to common good while generating profits is the clean energy sector, or renewable energy sector.

Social Strength

Due to the increased focus on climate change, much monies from financial institutions, corporations, governments, philanthropists and many more, are dedicated into clean energy companies for well-purposed intentions, whilst in other instances, at the other end of the spectrum, purely for good PR.

Conversely, companies that fail to reflect a desire to provide common good to the society are typically criticised or shunned, affecting the growth of those industries. With few exceptions, clean energy companies largely avoid these problems since the company is literally built upon the foundation of social good in reducing climate change risk.

Future Sustainability

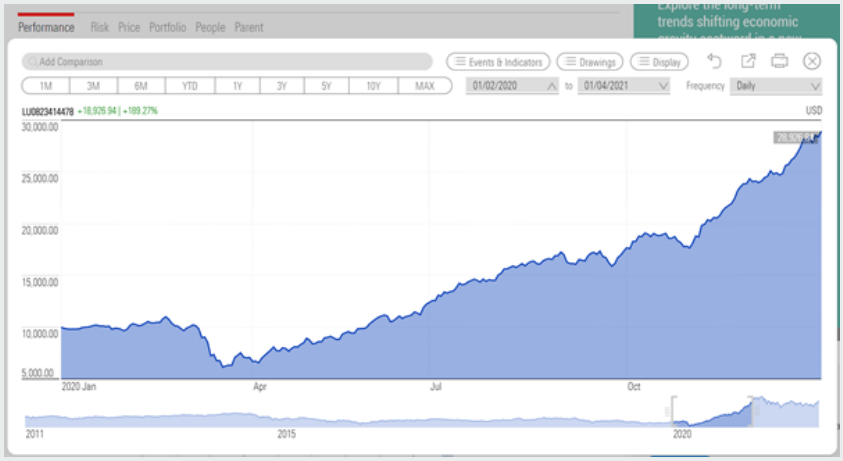
This does not mean that clean energy lacks the potential to make profit: in the last 10 years the cost of converting solar energy has reduced by over 82% (1), especially due to improving technology, increasing experience of expertise and economies of scale. Since outrageous prices for clean energy are less and less likely to drive away consumers, the number of consumers of clean energy businesses has the potential to increase exponentially.

On a practical level, clean energy has also been increasing in utility. In the year 2000, renewable energy could only produce less than 11% of households in the US (2). In the 1990s, it was half of that. But in 2021, that number has increased to over 25% (3), demonstrating much higher development of sustainable energy provision for 1st world countries in a short period of time.

Impressive Recent Growth

The benchmark for Clean Energy, the SNP Clean Energy Index Fund, reported a 138.4% growth from 2nd Jan 2020 to 4th Jan 2021. Similar investments with a high focus on clean energy reported high returns as well, for example:

The BNP Paribas Energy Transition Fund reported a 189.27% return in the same period.



These are positive trends moving forward and strong talking points that will resonate with clients.

However, it is imperative that, advice to them in this area is approached with some caution. The reason is because there are concerns which the client may need to be aware of, so that they can make a considered and well-informed decision going forward.

The importance of this cannot be sufficiently emphasised so, we will unpack and discuss these key considerations in more detail, in the next article. Stay connected.

Notes :

1) Renewable Power Generation Costs in 2019
International Renewable Energy Agency :
https://www.pv-magazine.com/2018/01/13/8th-irena-assembly-report-finds-utility-scale-solar-lcoe-falls-73-since-2010/

2) Amount of Renewable Resources that could power the United States :
https://www.statista.com/statistics/183420/electricity-generation-from-renewable-sources-in-the-us-from-2000/

3) 25% capacity:
https://www.renewableenergyworld.com/solar/renewables-made-up-92-of-new-generating-capacity-in-the-u-s-in-the-first-half-of-2021/#gref

Our Author

Luke Ho is a licensed financial practitioner and an active IFPAS member.
He is also an Associate Financial Consultant.