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RESPONSIBLE FINANCIAL PLANNING FOR A GREEN FUTURE:

*Investing on
Renewable/Clean Energy*

(Part 2)

Responsible Financial Planning for a Green Future: Investing on Renewable/Clean Energy (Part 2)

Intermittency and History in Clean/Renewable Energy

Renewable energy is known for being intermittent – almost inconsistent. For example, solar energy would be significantly weaker at night. Wind levels vary from geography to geography and even have seasonal upswings and downswings within those geographies. If energy is not consistent, it is not useful.

This is also better referred to as solving the *Energy Trilemma* – where energy is NOT useful unless it is affordable, secure and sustainable.

Affordable – For decades, renewable energy was considered too expensive to be practical. In the last decade alone, costs for electricity produced by solar power plants were 82% lower – driving up the demand – but it remains to be seen if it can remain this affordable.

Secure - Traditionally, Most Of Singapore's Supply Of Natural Gas Comes From Pipelines From Neighbouring Countries

Such an arrangement exposes several potential threats to the security of this energy source that powers our homes and industries: be it a negative turn in international relations or a deliberate attack on the pipelines.

Singapore has taken deliberate steps over the decades to increase security: by diversifying our sources of energy such as petroleum and LNG (liquefied natural gas), so that they can be shipped from many other countries in the world.

This room for improvement does still demonstrate the vulnerability of renewable or cleaner energy sources that could affect production and investments in these areas.

Sustainable – Otherwise known as decarbonisation: whether the energy can continue to be produced in large quantities without negative side effects to the environment or people.

It's rarely debated as to whether a renewable resource protects against negative effects: for example, solar energy doesn't release harmful carbon gases.

But the only evidence for practical utility and investment opportunities have been demonstrated in the last decade, despite the existence of the sector for 60 years. It would be hard to gauge from such a short timeframe if it were truly sustainable.

Outlying Results

It isn't implausible to highlight that this inconsistency is extended to investment returns as well, where investors would rarely see a return on their investment – in fact, prior to tech development it wasn't surprising to consider investments such as in philanthropy then.

Even though investors now see the potential for returns on their investments, it's also important for them to understand that much like the utility and history of the sector itself, there could be some intermittency in the investment returns – in other words, significant ups and downs.

For example, the SNP Clean Energy Index Fund achieved a 224.48% cumulative return from 2nd Jan 2012 to 4th Jan 2021. In a little over a 9-year period, this is an annualized return of almost 9.42%: which overeager advisors may jump into marketing.

However, if you reduce the assessment to an 8-year period (2nd Jan 2012 to 2nd Jan 2020), this takes away the 138.4% growth from the cumulative return, which is an obvious outlier. This drops the cumulative return of the fund to a mere 36.1%, or about a 3.92% annualized return.

2-Jan-12	2-Jan-20	4-Jan-21
560.97	763.44	1820.22

Prices of the SNP Clean Energy Index Fund at respective points in the year, Source: Morningstar

There is a huge difference in marketing a fund performance as 9.42% vs 3.92%.

Not bearing such context in mind for clean energy, and similar case studies - could result in serious potential future issues for advisors who may end up overpromising and under delivering.



Pragmatism vs Social Application

While it seems like Clean Energy has hit a high point as a trending and practical investment and could only go higher, we have to remember that pragmatism may take priority over ESG purposes.

For Singapore, it has been proving impossible to depend on solar energy as it is land intensive. While we use cleaner carbon energy sources like LNG compared to coal, it is conceivable, in view of those constraints, our immediate demand for energy may come before considering renewables, which may thus slow down the development and growth of the Clean Energy industry here.

In countries like Japan or China, they have a high dependence on oil and coal, where energy is largely used for affordability in society (keeping costs of energy extremely low since the resource is abundant) or for industrial purposes and development.

This is not to say that such countries are not interested in renewable energy as a whole or not 'doing their part'. For example, not only is China the largest producer of solar panels in the world, but China has upgraded its power grid with more efficient "ultra-supercritical" plants, which produce more energy with less coal. With such advancements made, according to the Center for American Progress every coal plant in the US would be illegal to operate in China.

But if traditional energy production methods solve the energy trilemma for those countries domestically – where oil or coal is cheap, sustainable (or at least, abundant) and secure, they have no incentives to develop clean energy quickly.

This would slow its potential as an investment internationally.

Concluding Thoughts

ESG Investing is increasingly popular and is a useful talking point for consultants to explore, especially with millennials or with business owners who are looking to make investment to improve their professional and personal image.

However, it is important not to overhype such an available talking point due to the many unknown quantities still in play. As responsible and intelligent consultants, it's our duty to ensure that the risks are clearly explained to the clients.

Clients should not be enticed by consultants using greed or guilt from social causes to move product unnecessarily, especially when the outcome of such actions could have additional ramifications on the world socially.



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