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Value rises as carbon falls

If managing risk in sustainable energy is a barrier to entry, partnership with an experienced investor can open the gate

Low interest rates and volatile markets are encouraging investment in real assets, as securities offer lower and more volatile returns. Investors are realising that they can access green energy markets, underpinned by real assets, without taking on the operational challenge of managing a wind turbine or the task of evaluating its risk.

Investing hand-in-hand with experienced investment managers can allow investors at every level to support growth in renewable energy while profiting from an asset that is sustainable; the carbon-based economy is not.

Investors need to consider at which phase in the project they will enter, at developmental or operational phase. By entering projects early in the developmental phase, qualified investors can play a game-changing role on the impact a project has and its effect on the wider world.

Understanding the value drivers and transaction structures of this sector allow the end investor to realise the greatest benefits by supporting a project to the point at which it offers greatest returns at every level. With a guiding hand from experienced investment managers, earlier entry, greater and more sustainable returns are within reach.

The barometer swings back to renewable energy

The expected political resistance to renewable energy in 2012 evaporated in 2013 as the barometer indicated that renewable energy was needed to ensure the resilience of the power system in the face of extreme weather events, such as floods in Pakistan, superstorms in the US and drought in Australia.

By 2014, clean energy was clearly gaining more momentum, helped by rapidly falling costs. Global investment in solar, wind and other renewable energy installations increased 17% to $270.2 billion in 2014 and for the first time topped the 100-gigawatt mark.[1]

However, this momentum is from a small base. The gains represent a fraction of the change needed to limit the global temperature increase of 2ºC, beyond which the planet faces severe harm. The European Union's own target to supply 20% of the total energy demand from clean energy sources by 2020, increasing to 27% by 2030, is a leap away from the average 5% to 10% of supply that currently exists in the European region. Real change must come from committed capital and committed political support.

With a trend of global investment in solar, wind and other renewable energy installations increasing, investment levels in 2014, with $270.2 billion, approached the 2011 record level clean energy investment of $278.8 billion. And even more remarkably, clean energy investment in developing nations is about to overtake that investment in developed countries.

The signals for renewable energy are favourable and the sector provides significant investment opportunities for a range of investors with varying risk profiles. Managing investment in this sector requires a long track record with committed investors. The breadth of initiatives in the sector will support all investment appetites. High-net worth individuals and smaller institutional investors often partner with specialist investors to select renewable energy because they can create a certain impact, whether generating clean energy, providing energy efficiency solutions or directly replacing fossil fuels. Institutional investors often want major renewable energy projects, such as large offshore wind farms, with which they can heavily contribute to a more environmentally friendly society.

When a house is on fire, the short view is to rescue the family silver, the long view is to put out the fire. By committing effort and resources, investors can have both profitability and sustainability. Renewable energy needs the support of every investor; there are developments to suit all appetites and more importantly to deliver a sustainable market. Committing now can bring benefits in perpetuity. ■

1 *United Nations Environment Programme (April 2015).*

Triodos Investment Management

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Triodos Investment Management, a 100% subsidiary of Triodos Bank, has a long-standing track record as an impact investor and is accessible to the full range of investors, such as private investors, qualified investors, high-net worth individuals and institutional investors.

Triodos Investment Management provides an experienced pair of hands that allows these three groups of investors to achieve their varying goals while staying close enough to the ground to effectively manage risk. Having first invested in wind turbines during the early 1980s, Triodos has grown to manage over €800 million in assets under management within the field of energy and climate today. With these projects Triodos provides an equivalent of clean energy for more than 320,000 households and avoid 430,000 tonnes of CO_2-emissions.

Triodos Renewables Europe Fund has a target return of 5-7% and the projects it has invested in generated approximately 413 GWh in 2014, which provided more than 118,000 households with clean energy and subsequently reduced CO_2 emissions by approximately 148,000 tonnes per year.

On a like-for-like basis the sites in the portfolio of our UK company, Triodos Renewables plc, generated 4.5% more renewable electricity in 2014 than in the previous year, enough to supply 32,0807 UK homes and, with the addition of three new sites into the portfolio, the overall generation has increased by 18.6%.

Triodos Greenfund, the first green investment fund in The Netherlands (1998), is currently the largest fund managed by Triodos Investment Management. The Fund has an open end structure with daily tradability and provides long-term senior debt to non-listed green projects and companies.

Further information:

www.triodos.com/en/investment-management