INVESTMENT

Getting the green light on green investment

The lessons the world is learning from the Covid-19 pandemic are as multi-faceted as they are wide-ranging. We have learned that new ways of working are possible and that our habits are surprisingly easily changed. We have also learned that from great challenge often comes great opportunity, which should stand us in good stead for the future

WRITTEN BY
BNP PARIBAS ASSET MANAGEMENT CO-HEAD OF ENVIRONMENTAL STRATEGIES GROUP, EDWARD LEES

While the world has been distracted by the current pandemic, even greater threats have continued to build. Global warming, climate change and other environmental issues remain ruthlessly pressing. The global population is still on course to reach nine billion by 2035, increasing demand for energy, food and water by 35-50%. Without immediate intervention, our current practices to meet these needs involve huge and irreversible environmental impact.

Unlike the coronavirus, these issues are not localised, nor can they be solved by short-term, isolated measures. Instead, they require coordinated, focused efforts or risk failing at the first attempt. The good news is that the reaction to the pandemic – or rather to its catastrophic economic impact – has seen governments and a range of other stakeholders keen to take a fresh approach to rebuilding.

Support for a green rebuild

We can see a consensus emerging for the money earmarked to address the economic fallout to align with and even support measures to tackle climate change, along with other challenges such as pollution, water shortages, flooding and electrification. Encouragingly, the support for this approach to 'build back better' can be seen around the world. Although not yet universal, there is already considerable backing – and this is the largest and most important investment theme I have come across in my career.

US presidential candidate, Joe Biden, has embraced the 'Green New Deal' and, if successful in taking over the White House, is looking to turn the world's largest economy into a global clean energy superpower. Already, the Democrats' long-term stimulus plan includes replacing more than 200,000 polluting and unreliable US Postal Service trucks with electric vehicles. Similarly, the European Commission has put forward a detailed roadmap aiming for net zero greenhouse gas emissions by 2050 – just one of the aims within the trading bloc's overall plan. Elsewhere, Indian Prime Minister, Narendra Modi, unveiled a substantial Green Plan in July, with China pledging in September to be entirely carbon neutral by 2060.

So far, governments and other interested parties have offered high subsidies and low interest rates to companies developing new, future-focused strategies. But, as we enter the economic post-Covid recovery, it is the creation and capturing of opportunities that is going to be the catalyst for this green rebuild to really take off.

Designing a financial, fiscal and monetary system with environmental issues at its heart will not come cheaply -- but nor will it be a zero-sum game. Showing how we can turn climate and environmental challenges into investment opportunities is the carrot needed to drive more capital to fund the huge change we need. Long-term plans need long-term solutions funded by long-term capital, but it will only come if there is a demonstrable benefit to this reallocation.

Broaden your horizons

We need this broad governmental

support to become a green light for investors to begin to explore the huge range of opportunities on offer. From energy, materials, agriculture and industrials, there are companies providing solutions to decarbonise and futureproof these sectors of all shapes and sizes. The investment universe ranges from solar and wind energy to batteries, electrification, green buildings, biofuels, and pollution control and testing. There are also noteworthy opportunities in cleaner shipping and ocean freight.

These forward-looking investment ideas are fundamentally tied to a clear growth opportunity, which will increase and solidify in line with the escalating global policy response. For example, the EU has set hydrogen – a source of clean energy – as a key instrument for its 2050 Green Deal objectives. This signals that there is likely to be a huge jump in the investments in renewable hydrogen – estimates put the cumulative figure in Europe to reach between €180-470 billion by 2050[1]. The turnover in the hydrogen economy is also predicted to jump from the current €2bn to €140 billion by 2030[2].

The global offshore wind market is also set to expand significantly in short order. The International Energy Agency is forecasting 13% growth per year and a 15-fold increase in capacity by 2040. This is expected to become a $1 trillion industry over the next two decades[3].

This is just the tip of the renewable energy iceberg. Distribution of this power is as important as its creation and requires similar, if not greater, levels of innovation and capital. Existing grid networks need updating, with storage another key piece of the puzzle that requires immediate and rapid attention. All these new technologies align with one theme: creating a world that not only prevents further deterioration of the planet but helps create resilience to deal with what is yet to come.

Sustainability and sustainable returns

For investors, this should chime with the responsibility of not just targeting sustainability for its own sake, but also expecting sustainable returns. We can and should not just commit blindly to ideas that promise a greener future – rigorous investment processes are now more important than ever.

Importantly, we have witnessed an encouraging mindset shift over the last decade. After years of research, there is now substantial evidence showing that companies with strong environmental scores outperform those that are less committed over time. This research also confirms that companies acknowledging and working to resolve environmental challenges will outperform those that do not. We can already see stranded assets and outdated technologies causing significant issues for companies in all sectors.

Companies that appreciate how embracing the future can add value are already pulling ahead in investment portfolio performance, while also reducing overall risk. Their performance is also more stable than their peers, as they suffer less in downturns and are less susceptible to swings in market trends. Of course, it is possible to short the companies that may be set to lose out in the long term – we are, after all, investors seeking returns.

Future first

At BNP Paribas Asset Management, we are already exploring the investment opportunities arising from this once-in-a-generation chance to shape a better future – all while targeting attractive returns and managing myriad risks. While all our strategies integrate environmental, social and governance considerations, we offer thematic and impact funds that cover a wide range of future-focused ideas. We are pleased to see investors aligning with our view that opportunities lie ahead, with new assets flowing into sustainability themed investments, even amid the coronavirus outbreak.

Covid-19 has shown us that we cannot control the future, but that we need to prepare to face it. As investors, we have the opportunity to help the world be as well-positioned as possible – and ensure our portfolios are prepared, too. ■

In association with

BNP PARIBAS
ASSET MANAGEMENT

[1] *Source: https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_1257*
[2] *Source: https://www.pv-magazine.com/2020/06/19/leaked-eu-hydrogen-strategy-eyes-e140-billion-turnover-by-2030/*
[3] *Source: https://www.iea.org/reports/offshore-wind-outlook-2019*