HOW INSTITUTIONAL INVESTORS CAN SPEARHEAD A GLOBAL ENERGY TRANSFORMATION

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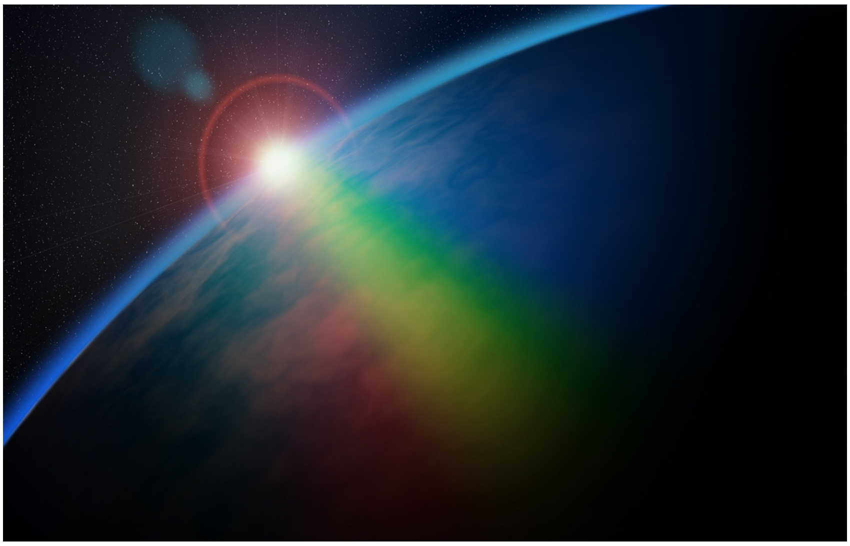

The verdict on climate change from scientists across the world is hard to ignore. The Intergovernmental Panel on Climate Change has reiterated that we only have a dozen years to stop a two degree increase in global temperatures becoming an inevitability.

The half-point rise from 1.5 to 2.0 degrees would mean vastly increased risks of floods, drought, extreme heat and poverty for hundreds of millions of people.

Action cannot come soon enough

Governments and institutions around the world are coming under increased pressure to change their behaviour. Growing public attention to climate change, including the Global Climate Strike and the work of campaigners like Greta Thunberg at the UN Climate Action Summit in New York, has been forcing global politicians to face the critical issue and strengthen their responses to climate change.

Trillions of investment, strong leadership and long-term thinking will be required to affect genuine change. These elements can be found in institutional investors, who I believe have a crucial role to play in tackling the climate crisis.

Divestment from fossil fuels is one part of the puzzle

Encouragingly, we know that institutions are aware of the urgent need for action. New research from Octopus among 100 institutional investors – representing $5.9 trillion assets under management – reveals that 71% of global institutions believe investment strategies could be used to make a material difference to climate change outcomes.

Divestment from fossil fuels remains the most popular route for these investors. Over the next decade, respondents across the world plan to divest $920 billion from fossil fuels – almost tripling outflows planned for next year.

But reducing exposure to highly polluting industries is just one side of the equation. It's time for more institutions to take a proactive approach.

Appetite for climate-saving assets

Divestment is popular, but it is not enough by itself. We need to see more investment into climate-saving assets – which tackle the problem head on.

We are pleased to see that this is happening already, to an extent. The institutions we surveyed plan to invest a significant $643 billion into renewable energy infrastructure over the next decade.

While this is a welcome move, not all investors are making the most of the renewable energy opportunity. We identified that, across our sample alone, 16% of institutions (accounting for approximately $1 trillion AUM) have no allocation to climate-saving sectors, including renewables, cleantech and electric transportation.

As the majority (69%) of respondents believe that renewables play a significant role in tackling climate change, what is it that's holding investment back?

Obstacles standing in the way

A number of barriers remain to investors increasing their allocation to the asset class. Key concerns include energy price uncertainties, a lack of renewable energy investment skills, and liquidity issues.

To unlock the investment needed to build a renewable future, institutional investors will need to become increasingly comfortable with different types of investment risks.

We recognise that some investors are still early on in their allocation to renewables. But this shouldn't stop them from being able to access renewable opportunities that deliver an attractive risk adjusted return, tailored for where they are in their renewable investment journey.

Industry change

As a next step, specialist managers need to educate investors on underlying risks. They also need to mitigate operational risk through their in-house experts and work with their investment teams to help build portfolios of renewable assets that match investors' risk return appetite as well as alleviating specific concerns they may have.

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It is time to make bolder changes. The scale of the challenge and the opportunity to have an impact are too large for investors to cling onto narrow mandates.

By reallocating capital from fossil fuels to sectors that are actively climate-saving, we can focus on the energy transition: funding the assets and infrastructure that bring the world clean, green power.

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