Recharging the energy sector

Change has been building in the energy sector, as public pressure and environmental necessity are driving forward a shift to more sustainable forms of fuel.

The transition to renewable energy has begun, but to build momentum and achieve a cleaner world for the long term, this change needs government support, regulatory backup, and – of course – investment. Handled well, the energy transition has the potential to pay off for society, the planet, and its investors.

What is the 'energy transition'?

The 'energy transition' is a dramatic shift in the way we produce and consume energy. It refers to a move away from traditional, fossil-fuel-based energy (like oil, coal and gas), towards renewable energy supplies (like solar, wind and biomass). The energy transition requires a change in the infrastructure surrounding our energy sources, as well as the sources themselves.

Who is leading the charge?

At a regulatory level, Europe and the US have led the charge so far. The scale of their recent energy transition packages – which provide critical support to the energy transition – cannot be overstated.

REPower EU

In response to the disruptive effects of Russia's invasion of Ukraine, the REPower EU plan aims to end the EU's energy dependence on Russian fossil fuels, as well as advancing the fight against climate change. The plan includes €300bn of investment by 2030.

Inflation Reduction Act

Something of a trick shot by President Biden's administration (because which US politician could vote against legislation named the 'Inflation Reduction Act'?), this legislation provides long-term subsidies for sustainable energy generation and 'clean' manufacturing in the US. The legislation includes $369bn in funding and significant tax credits.

EU Industrial Strategy

Born out of the European Green Deal, the EU Industrial Strategy aims to drastically increase Europe's renewable energy capability (involving €1trn of investment), fast-track project permits, and prioritise 'home-grown' sources of renewable energy.

But while Western economies have led the way with greener legislation, the energy transition is a global theme. Media coverage often frames developing economies as rogue perpetual polluters, but the truth is not so black and white. Recently industrialised nations have had a tendency to lean on fossil fuels to turbocharge their economies, but there are also signs that these nations have ambitions to pivot to cleaner energy too. For example, China has accounted for over half of the world's wind power installations since 2020, and India has been steadily increasing its solar power installations over the past decade.

There's still much more to do...

New regulatory announcements have added significant momentum to the goal of decarbonisation. At this point, it's important to note that the energy transition isn't just a pipe dream that the world is optimistically planning for: it's already happening.

However, there is still a long way to go. For example, creating a globally coherent approach to achieving the energy transition remains problematic. At a recent meeting of the G7 (UK, US, Germany, France, Japan, Italy and Canada), leaders were criticised by climate change experts for failing to set a deadline to phase out coal power. It's worth nothing, though, that the group did reiterate their commitment to accomplishing predominantly or fully decarbonised power by 2035.

There is also, of course, the not-insignificant matter of adequately funding the energy transition. Despite the financial commitments already in place through new regulation, the sheer level of investment required from this point is staggering. To get on course for 'net zero', i.e. achieving a balance between carbon emitted into and removed from the atmosphere, investment in clean energy may need to rise from its current levels of a little above $1trn per year, to $4.5trn.[1]

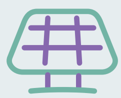
[1]IRENA, Guinness Global Investors estimates; April 2023

China accounted for **55%** of global wind power installations in 2021

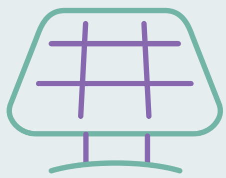
Source: Guinness Global Investors

Annual solar installations have skyrocketed

Solar power installations, total gigawatts (GW)



19 GW in 2010



260 GW in 2022

Source: Guinness Global Investors. 2022 data is estimated

Drivers across the globe are making the switch to electric vehicles

Worldwide electric vehicle sales

6.5m in 2021

10m in 2022

12.1m in 2023

Source: EV-Sales. 2023 data is estimated

> “Traditional fossil fuel storage methods have no use in the renewable energy sector. Instead, investment in battery technology and battery storage facilities is essential, and investment opportunities are already opening up in this fast-paced and innovative area.”

Ben Matthews Investment Director

To find out more about the investments in our sustainable funds, take a look at our **Sustainable Impact Report** or get in touch with us to learn more **communications.hwam@handelsbanken.co.uk**

… which presents long-term opportunities for investors

We know that there is public, political and – of course – environmental pressure to transition the world to renewable, sustainable energy. Huge investment is already taking place, but much more is still to come. We strongly believe that this presents an attractive, long-term opportunity for investors.

The transition to renewable energy will encompass a huge range of investable areas. Naturally, more renewable energy needs to be generated, and this means investing across the spectrum of renewable energy sources, from wind and solar to hydro (water), geothermal and biomass sources. The International Energy Agency estimates that by 2025, renewable sources will generate a larger supply of electricity than coal, gas or nuclear sources.

As well as the possibility of investing directly in this renewable energy production, investors also have the ability to invest in government bonds issued to support clean energy projects. The ‘green gilts’ recently issued by the UK government to fund renewable energy initiatives and generate UK jobs in the renewable energy sector are just one example.

But generating more renewable energy is just part of the story. Energy generated from renewable sources needs to be stored, particularly as these sources can be uneven (e.g. in simple terms, when the wind drops, so does the power generated by wind farms). Modern populations rely on (and expect) consistency from their energy supply, so a means of storing renewable energy is essential in order to even out its distribution. Traditional fossil fuel storage methods (like tanks and silos) have no use in the renewable energy sector. Instead, investment in battery technology and battery storage facilities is essential, and investment opportunities are already opening up in this fast-paced and innovative area.

Renewable energy also needs different methods of distribution and consumption. Electric vehicles and their required charging stations are an obvious example of this. Despite some well-documented teething troubles, the infrastructure is being built all around us to accommodate a greener fleet of vehicles. As both regulation and infrastructure increasingly support the switch to electric vehicles, this is another key trend for investors to access.

How are we invested in the energy transition?

Our sustainable investment strategies are already taking part in the energy transition, with investments across both stock and bond markets, as well as in ‘alternative’ asset types (which lie beyond traditional financial markets). From generation to storage, from ‘green gilts’ to electric vehicles, these investments are backing long-term growth in the renewable energy sector, and supporting the transition to a more sustainable future.

- Renewable energy generation
- Renewable energy infrastructure
- Battery storage
- Green government bonds
- Electric vehicles

To find out more please get in touch:

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Assessing the performance of our investment strategies

Our 'target return' performance benchmarks

Most of our investment strategies aim to deliver financial returns at levels linked to the rate of UK inflation (measured by the Consumer Price Index, or CPI). Over any given five-year period, these strategies target returns which are a pre-defined level above the rate of inflation. Our CPI-linked goals are known as the strategies' target return benchmarks, and are designed to help customers evaluate the strategies' performance in a real-world context. These targeted returns range from CPI+1% for our lowest risk (Defensive) strategies up to CPI+4% for our higher risk (Growth) strategies. Our highest risk (Adventurous) strategy is the exception, as it does not use a CPI-linked goal. Instead, this strategy aims to beat the returns offered by the global stock market (represented by the MSCI All Country World Index).

If the strategies deliver total financial returns to investors (after all costs and charges have been taken) equivalent to the total return of their target return benchmarks, we consider the strategies to have achieved their targets.

Our financial market performance benchmarks

The performance of our investment strategies can also be compared to representative indices for two of the main asset types in which most of the strategies invest. These indices are 'MSCI United Kingdom (£) – net total return' (representing the performance of UK shares) and 'BoA Merrill Lynch UK Gilts' (representing the performance of conventional UK government bonds). These indices are known as the strategies' comparator benchmarks, and are designed to help clients evaluate the strategies' performance in a financial market context.

It is important to note that financial returns are not assured: there is no guarantee that the strategies' performance objectives will be met, or that a positive return will be delivered over any time period. When you invest, your capital is at risk.