



# SUSTAINABLE INVESTMENT 2023 INVESTMENT THEMES



Source: iStock

## ENERGY TRANSITION

The continued growth in renewables is undeniable, with the transition to net zero in motion and gathering momentum. In light of this, the key questions are which part of the renewable value chain will benefit most and how investors can take advantage of the investment opportunities.

Within the investment trust space, the broad green infrastructure or renewable sector consists of renewable power generators, energy storage, energy efficiency and energy transition and infrastructure - all of which have a total market cap of over £16bn in the UK. Renewable generators are the most established with a steady growth rate, while energy storage, energy transition and energy efficiency are less mature.

There is an abundance of opportunities in the renewable sector and the continuation of capital raising should resume once markets settle down. The number of investment trusts should also grow overtime, especially with the expected improvements in technology, in energy storage, energy efficiency and energy transition.

Buoyed by record-high electricity prices, renewable generators saw a run up in their share prices until the spike in gilt yields during September 2022 and subsequent announcement of a windfall tax on power generators saw gains pared. Now that the current government has published their electricity generator levy, which at first viewing is expected to be less impactful than the previously proposed revenue cap, and bond yields have fallen we can once again focus on the opportunities as opposed to the risks.

With a total market cap of £12.6bn, renewable generators, as a group, are currently yielding above 5% and can offer both relatively stable growth and dividend. We are selective and look for differentiations between companies, preferring those that, we believe, offer a higher-quality and a better-resourced management team. We also prefer a diversified exposure to geographies and technology, and we are selective with regards to the trade-offs between higher financial and operating leverage against higher growth and/or dividend.

Energy transition and infrastructure companies can offer diversification and complement exposure to renewable generators. Companies in this area have a total market cap of £1.9bn, at the time of writing.

At £1.6bn, the market cap for energy storage companies is a little smaller. Energy storage is needed to balance out the intermittency of power generated from renewables. Hence, battery storage companies have become attractive for investors, but we caution the risk of being exposed to a single technology or a single company. Energy efficiency is less well established, in our view. We are watching this space in anticipation of potential future opportunities.



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