Planet Equities or Climate Bonds? Why choose? Invest in both!

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Investors can fully support the transition to a low carbon economy and an asset class mix provides complementary impact exposure.

A multi-asset approach contributes to accelerate the transition towards a more sustainable economy, as asset classes can target impact generation across different segments of the economic value chain. Fixed income investors can finance the transition to a low carbon economy, while equity investors can support innovative low carbon technologies and products.

Green recovery plan

The planet is warming up due to our collective actions. Plans to reduce global carbon emissions are more than urgent. Following the devasting economic consequences of the coronavirus pandemic, the call for a “green recovery” is being proposed.

Such a plan would, through government stimulus, boost the economy and at the same time prioritise green investments and technologies; by cutting CO2 emissions and benefiting from fiscal stimulus directed towards low carbon technologies and transitioning industries.

Investors, eager to act and invest in the development of a more sustainable economy, can capture different sources of impact by allocating capital to both fixed income and equities.

Fixed income investments provide a low risk-reward profile while financing specific green projects, thus funding the climate transition. While for equity investments, the risk-reward opportunity is normally higher by investing in new technologies and products.

KEY POINTS

1. The adverse side of climate change comes from inaction.
2. When actions from individuals are insufficient to achieve results, investors should mobilise a critical mass of capital and coordinate a policy signal.
3. A multi-asset approach contributes to accelerate the transition towards a more sustainable economy.
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According to the International Renewable Energy Agency, global CO2 emissions are generated from only seven industries comprising the electricity and transport sectors\(^1\). The same report also states that to achieve the ultimate climate goal of a global carbon-neutral economy by around mid-century, all sectors need to take action.

Mitigation efforts will therefore affect all economic sectors and necessitate structural changes, notably in the energy space. The utility sector illustrates the investment needs and urgency, as electricity generation powers the global economy and is key in transitioning to a low carbon economy.

**Climate change and decarbonisation of the electricity supply chain**

The decarbonisation of the electricity sector is paramount to tackle climate change, as electricity producers account for over 40% of global CO2 emissions. Moreover, coal remains the single largest source of fuel and accounts for 40% of electricity generation\(^2\). Greenhouse gas emissions generated from electricity production not only relate to the direct emissions from the power plants but sum up throughout the global value chain to further generate emissions from downstream activities.

As illustrated in the image below, in order to transition from fossil fuel usage to green energy, the starting point is to decarbonise electricity generation. This is essential to enable the low-carbon transition of activities further downstream, such as in transportation, real estate and industry.

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\(^1\) Global Renewables Outlook: energy transformation 2050

Supporting the transition - Utility Green Bonds – Decarbonising Electricity

Fixed income investors can participate in the decarbonisation of electricity and fund the transition to a low carbon economy, by investing in green bonds of utility companies. Over the past four years, utilities have issued a total of EUR 77 bn of green bonds, exceeding financial institutions and industrial green bond issuers. The chart below illustrates the continued access to the green bond market from utilities and the opportunity for investors to support the climate transition.3

![Face value of green bonds issued per year](image)

Green bonds have unique features compared to traditional bonds. The funds raised i.e. use of proceeds are specifically designated for “green projects” and issuers provide annual reporting to investors detailing how the “use of proceeds” have been disbursed.

Green projects can range from large offshore wind farms and solar parks to upgrading and strengthening transmission and distribution networks from climate change related disasters (flooding and wildfires, to name a few) by undergrounding cables. Energy storage facilities are another form of green project that help store renewable energy generation and support the growth of carbon free electricity.

As a result, green bonds issued by utilities allow investors to generate impact from the use of proceeds and fund the transition to a low carbon economy, without accounting for the carbon intensive power generation portfolio of the issuer.

Green companies – providing capital towards growth and new technologies

While fixed income investors can answer the call to climate action by decarbonising electricity and transitioning utilities to a low-carbon business model, equity investors can invest capital in growth and new technologies.

The recent European Green Deal provides a roadmap to make the EU carbon neutral by 2050. It is foreseen that large investments will be dedicated to activities such as renewable and clean energy and low carbon mobility. Part of this green deal, the EU taxonomy is being developed in order to define which activities contribute to climate change mitigation. So far, the following are considered:

3 Asteria Investment Managers, ICE Index
generation & distribution of renewable energy, energy efficiency, clean transportation, renewable materials, carbon capture and storage, carbon sinks, energy infrastructure and clean fuels from renewable or carbon-neutral sources. Selecting and investing in companies with products, services and technologies deriving revenues from these above-mentioned activities will be key in financing the acceleration of a low-carbon economy and are characterised by high growth prospects. For instance, the development of low carbon mobility through clean transportation will be impressive in 2020. It is expected that the European electric vehicle (EV) sales will grow by 32%, with 165 new electric vehicles models launched on the market⁴. These opportunities can be captured both upstream, for example through key high-tech components in energy storage and semi-conductors that contribute to technological performance of electric vehicles, and further downstream in developing the growing green hydrogen market.

**Conclusion**

The emergence of a low carbon economy will necessitate a vast transformation of our energy system. Investors can answer the call to action, by supporting the climate transition, capturing growth in new technologies and at the same time maintain diversification across a multi-asset allocation. There is a clear benefit to expose a portfolio to an equity and fixed income strategy both pursuing the climate change abatement.

⁴ Bloomberg New Energy Finance
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