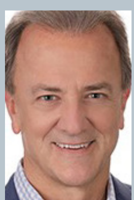
How Investors Can Contribute To The Green Energy Transition

ESG



BY: **Michael Kovacs**

The impact of climate change has dominated the news for the past few weeks as a United Nations summit in Glasgow, Scotland, has focused on the global impact of this pressing problem and how countries can tackle it.

While we are all affected by climate change and can play a part in how we behave, investors have a unique opportunity to influence the future. By channeling their savings into companies that are walking the talk – as opposed to talking it – they can be a catalyst for societal change.

This is as simple as investing in the best global companies using solar, wind, and hydro power to generate energy that is less polluting and moves us closer to a cleaner future.

Cleaner Energy

Cleaner energy is at the heart of the so-called ESG (environmental, social, and governance) acronym. These are three areas which evaluate a company's impact on the environment (the 'E'), its attitudes toward people and society (the 'S'), the way they are governed (the 'G'). Investors need to determine if they are transparent, inclusive, and serving shareholder needs.

As the Glasgow conference grappled with climate change, it was clear the problems are complex and the solutions not as easy as we like. The transition has begun, but fossil fuels will remain a vital part of the global energy grid for decades to come. We need them to run vehicles and produce everything from plastic to paint.

The conference was held against a backdrop of energy disruptions, which illustrates the fragility of global energy needs. Oil prices are sharply higher. Natural gas prices in Europe are spiking. China needs more coal to run its utilities and stop rolling blackouts.

The investment industry has jumped on green investing and global warming with ESG becoming the catchphrase. A Google search of 'What is ESG?' returns 30 million results.

Yet, some of what is being offered is not as green as it seems, or not green at all. These tactics are called 'greenwashing,' a phrase that describes information disseminated by an organization that presents an environmentally responsible public image, but may not do much.

The BBC provided a list of what to look for in this respect. Companies have gone green by changing the colour of their logos, using catchy mottos, or creating jingles with trigger words. They combine vague claims and false language with misleading advertising or hide relevant information about what they do.

Our investment vehicle allows investors to take action. A clean energy ETF, it focuses only on the 'E' component of ESG because it is the part of the equation that is leading to a cleaner energy future. It is a mix of global utilities and power companies that use hydro, solar, wind, and other renewables to generate electricity.

As more investment flows into companies like these, they become more efficient, cost effective, and profitable. It is a virtuous circle. The more that is invested in them, the greater their ability to innovate, the more profitable they become.

Renewables

The amount of money flowing into renewables shows how this works. Between 2009 to 2019, global annual investment in renewable energy rose by 80 per cent from US$168 billion to US$302 billion. The International Energy Agency (IEA) says this flow of capital has seen renewables' share of global power generation rise from 20 per cent in 2010 to 27 per cent in 2019. The target is 50 per cent by 2030.

These statistics are good news and show how cleaner energy can yield results. We believe the global economy is at the beginning of a great transition and we want to be on the right side of that. **BPM**

Michael Kovacs
is the founder and CEO of Harvest Portfolios Group.