Why look at private investment in renewables?

UBS House View Briefcase

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Key message

Renewable energy investments in listed stock markets have faced challenges. But unlisted investments in renewable energy infrastructure look increasingly appealing. We like their potential to offer diversifying returns uncorrelated to other asset classes and inflation-linked cash flows that can help build long-term wealth. But investors should be aware of the unique risks of private markets, including illiquidity and long investment horizons.

House view

01 Recent challenges have weighed on renewable energy investment.

- Concerns about higher-for-longer rates and cost pressures have hurt public equity strategies in renewable energy.
- The MSCI Global Alternative Energy Index fell 10.7% in 2024 as of 16 September, compared to a 0.8% climb in the MSCI World Energy index.

02 But large investment gaps, corporate investment, and government policy are turning more supportive.

- The Global Infrastructure Hub expects the world's infrastructure investment gap to widen to USD 15tr by 2040, presenting a considerable untapped opportunity.
- Global annual renewables capacity additions increased by almost 50% in 2023, the fastest growth rate in two decades, according to the International Energy Agency.
- Government policies like the Inflation Reduction Act in the US and the European Green Deal provide a favorable landscape for private investments in renewables, in our view.

03 So, private infrastructure can augment and diversify returns in long-term portfolios.

- While past performance is no guarantee of future returns, infrastructure-linked assets returned 9.1% on average in 2023 and 10.8% over the past 10 years, based on Cambridge Associates data.
- More broadly, infrastructure assets can potentially help diversify portfolios, with correlations of between -0.2 and +0.6 to other asset classes between 2005 and 2022, according to Cambridge Infrastructure Index data.

New this month

India has received a commitment of USD 386bn from banks and financial institutions to expand the country's renewable capacity by 2030, Renewable Energy Minister Pralhad Joshi said on 16 September, according to a Reuters report. "We received overwhelming commitments from states and Union Territories as well as from the developers, manufacturers and financial institutes to support our goal of 500 GW by 2030," said Joshi.

One liner

Private renewable investments can offer appealing and diversifying returns tied to enduring trends like AI and the energy transition.

Did you know?

- Digitalization and the growth of AI can underpin renewable energy demand. The International Energy Agency estimates that global energy consumption of AI and data centers could exceed 1,000TWh by 2026—about the same amount of energy that Japan consumes today.

Investment view

We believe private infrastructure investments in renewables can helpdiversify portfolios due to their low correlation to other asset classes and provision of alternative, stable income streams that are often tied to inflation. This approach may also help investors achieve their sustainability and impact goals. However, investors should consider the risks inherent to private markets before investing, including illiquidity, long lockup periods, leverage, and over-concentration.

Non-Traditional Assets

Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- Hedge Fund Risk: There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, “junk bonds,” derivatives, distressed securities, non-U.S. securities and illiquid investments.
- Managed Futures: There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- Real Estate: There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- Private Equity: There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- Foreign Exchange/Currency Risk: Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer’s “home” currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

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