



Three reasons for private investments in renewables

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Explore why CIO thinks private renewable energy infrastructure is key to achieving net-zero goals and offers potential portfolio benefits as an investment.

When it comes to supporting the transition to a low-carbon economy, investors need to be discerning. Renewable energy investments in listed stock markets have faced several recent challenges that may have dissuaded some investors from investing in the decarbonization theme. The MSCI Alternative Energy Index has fallen 32% over the five quarters to end March 2024, compared to an 8.2% climb in the MSCI World Energy index, as concerns about higher-for-longer rates and cost pressures have taken their toll.

But CIO thinks unlisted investments in renewable energy infrastructure—where investors use patient capital to gain exposure to long-term physical assets directly and with less sensitive to daily market swings—look increasingly appealing for investors. Here are three reasons why:

Renewables are crucial to achieving net-zero goals. We think private investments in renewable infrastructure will be pivotal in closing the infrastructure investment gap and meeting the ambitious net-zero objectives by 2050. With an estimated annual investment requirement of USD 2.6 trillion in green infrastructure, renewables such as solar, wind, and hydropower are essential for decarbonizing electricity generation, transportation, and heating/cooling processes. These investments directly contribute to global efforts in combating climate change and align with several United Nations' Sustainable Development Goals, including SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action).

Government support remains a tailwind. The current market environment, bolstered by supportive government policies such as the Inflation Reduction Act in the US and the European Green Deal, creates a favorable landscape for private investments in renewables. These policies are designed to spur capacity expansions and enhance the economics and competitiveness of renewable projects. Despite challenges like inflation and rising capital costs, the sector continues to

experience record annual spending and capacity additions, presenting a potential investment opportunity for far-sighted investors seeking financial returns alongside environmental impact. An additional catalyst for these assets may come from the AI revolution. For example, the International Energy Agency estimates that global energy consumption of AI and data centers could exceed 1,000 TWh by 2026—about the same amount of energy that Japan consumes today.

Private renewables infrastructure can provide potential portfolio benefits. Renewable infrastructure investments offer attractive diversification benefits within private markets allocations, exhibiting low correlation to other asset classes. We think these investments can act as a return enhancer and provide a stable source of income, with return estimates for renewable power assets ranging between 8% and 13% according to GSAM data. What's more, renewable infrastructure assets have shown resilience in the current macroeconomic environment. We think they can benefit from higher barriers to entry and stable cash flows often linked to inflation that appeal to long-term investors looking to put money to work across economic and business cycles.

So, CIO believes private infrastructure investments in renewables can help diversify sources of return, support long-term financial goals, and provide 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.

For more details, please see [Private markets: Investing in renewable energy infrastructure \(22 April, 2024\)](#).

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