Renewables and the recovery

Accelerating investment in a post-pandemic world

octopus

A brighter way

Disclaimer

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Contents

Foreword

The global pandemic is a health and economic crisis of an unprecedented scale. It has changed the way society lives, the way businesses operate and has forced governments across the world to act fast. Collectively, they have committed a $12 trillion emergency lifeline to businesses and households within the first six months of the outbreak.[1]

Yet longer term, climate change poses a potentially greater threat – should society, businesses and governments fail in their efforts to keep average global temperatures below 2°C. A similar $12 trillion lifeline invested in renewable energy over the course of the next decade would go a long way to **preventing a catastrophic humanitarian and economic disaster that could cost the world economy up to $800 trillion in the long run**.[2]

Emissions may have dropped in the immediate aftermath of the Covid-19 outbreak as factories closed down and flights stayed grounded, but climate change is as big a risk as ever. Emissions are already back close to pre-lockdown levels and **we are on course to see the warmest five years on record, putting the Paris Agreement's 2°C targets in jeopardy**.[3]

There have been repeated warnings that time is fast running out before the window of opportunity to stay within 2°C closes forever. Crucially, we still have time. Many institutional investors in our latest research believe that **the Covid-19 crisis has the potential to accelerate the energy transition by creating post-pandemic recovery plans with built-in climate change initiatives**.

There have been some positive signs of intent. The UK has set out its plans to **'Build Back Greener'**, aiming to be the world leader in clean wind energy.

> "Covid-19 can be the catalyst for a greener more sustainable future, but it needs to be a collaborative effort."

Meanwhile, the EU's recovery package, **Next Generation EU**, has committed at least 30% of funds to sustainable and low-carbon investment. Notably, our report shows that where confidence in politicians is high, as it is in Europe, is where institutional investors have their highest exposure to renewables. Where there is less political support for change, as in the US, investors' asset allocations to the sector are lower.

Politicians and governments have played a pivotal role in the growth of the renewable energy market over the past decade. However, in our latest report, institutional investors have given a clear steer on three barriers that are preventing them from making, or increasing, allocations to renewable energy assets: **not enough government coordination, a lack of liquidity, and energy price uncertainty**.

Over the next decade, we need to work together to break down these barriers and **drive forward the decarbonisation agenda to create an environment that opens up the renewables market**, enabling institutional investors' cash to flow in. If we can unblock more than $12 trillion of investment in the renewable energy sector over the course of the next 10 years, we can achieve the Paris Agreement's goals.

[1] International Monetary Fund. [2] Nature Communications.
[3] United in Science 2020. [4] PwC: Low Carbon Economy Index 2019.

As we attempt to navigate our way through the difficulties and challenges of a global pandemic, **renewables have proved to be a resilient source of power** – and we have seen demand for sustainable energy increasing during the crisis. Covid-19 can be the catalyst for a greener more sustainable future, but there needs to be a collaborative and organised effort from governments, institutional investors, specialist energy fund managers, banks and energy companies.

The UK is in prime position to drive this agenda. It has the highest decarbonisation rate of any G20 country and is one of the world's most dominant financial centres.[4] In 2021, it takes over the G7 presidency and will be co-hosting (with Italy) next year's United Nations Climate Change Conference (COP26) in Glasgow. In this position of significant influence, the UK can lead from the front and orchestrate a coordinated plan of action to address the threat of climate change.

Specialist energy fund managers, like ourselves, recognise the crucial role we play in making investments more accessible to encourage greater investment in renewables. Increasing numbers of **institutional investors also recognise their key role and are transitioning their investments away from fossil fuels and into climate-saving investments**.

There is now a huge opportunity for governments everywhere to implement measures that not only help economies recover after the pandemic but create an environment that encourages further, and greater, investment in renewables at the same time. It is crucial they do.

Matt Setchell

Alex Brierley

Executive Summary

Investment remains resilient as demand for renewable energy increased in 2020 amid the coronavirus crisis – but challenges remain to unblock the trillions of dollars of renewable investment needed to combat the threat of climate change.

Energy consumption levels across the globe fell as the world grappled with the consequences of the pandemic. Demand for oil was particularly weak and prices fell sharply (in some cases into negative territory for the first time) as the world went into lockdown.

But while overall consumption fell, renewables proved to be a resilient way of producing power – and demand for sustainable energy has subsequently increased. This year, for the first time, Europe has been generating more electricity from renewable sources than from fossil fuels.[5]

Our survey highlights that **institutional investors' appetite for renewables remains strong**. They are increasing asset allocations to renewables, recognising the need to heed the warnings of scientists – and make a difference to our future. **Investors expect to increase allocations to renewable energy infrastructure to 8.3% in the next five years and to 10.8% in the next 10 years, amounting to $742.5 billion**. This compares with 9.1% and 10.9% forecast over the same timeframes in 2019.

The pandemic has had an impact on current allocation levels, which have reduced slightly to 4.2% this year, from 4.6% in 2019. This is expected to be a temporary position, with investors forecasting allocations increasing to 5.7% next year, and **half of investors expecting renewable energy to generate a net annual return of between 5–10% over the next twelve months**.

80%

of institutional investors are planning to increase allocations in this sector over the next 3–5 years.

Renewable energy infrastructure, particularly wind and solar, is set to be the beneficiary of this increased demand, with 80% of institutional investors planning to increase allocations in this sector over the next three-to-five years. On a regional level, Europe is the most popular among investors, with more than 40% currently investing in the region. A third of potential new investors are considering increasing allocations to Europe in the next three-to-five years.

With interest rates set to stay lower for longer in the aftermath of extraordinary pandemic-induced financial packages implemented by governments, some 86% of investors are seeking uncorrelated sources of higher yield. More than half of global investors **(53%) point to the more stable and predictable cash flow** of renewables as a reason to invest. A further 48% cite the importance of the sector's long-term yield outlook.

Liquidity and energy price uncertainty are two of the main barriers that confront investors. These challenges will need to be overcome if we are going to open the door for trillions of dollars to be invested in renewable energy assets – and meet the Paris Agreement's goals by 2030.

Renewable energy assets are attractive because of the illiquidity premium attached to them. But as this report shows, investors are less willing to allocate capital to less liquid assets during the type of volatile and uncertain markets we have witnessed this year. Concern over liquidity was the biggest challenge for global investors (43%) compared to it being the third most challenging issue in 2019 (19%).

[5] Ember.

Energy price uncertainty also continues to be a top three challenge for institutional investors (38%), although it is the biggest challenge for US investors, with 60% citing uncertain energy prices as the major obstacle to investing in renewables.

Our report shows that **Covid-19, and the uncertainty and challenges it has brought, has resulted in investors reappraising their forecasts for fossil fuel divestment levels**. While investors anticipate increasing divestment over the next one, five and ten years, they will do so at a slower pace than anticipated in 2019. As for 2020, institutional investors have reduced the proportion of their overall portfolio divested from fossil fuels, on average, to 4.5% compared with 5.7% (expected for 2020) in our 2019 survey.

The reappraisal of investors' long-term forecasts could be symptomatic of the current political and economic uncertainty in light of the virus, but many investors believe that unless governments start to work together, the pace of energy transition could be held back. More than two-thirds of global investors **(68%) say a lack of international cooperation is the number one factor negatively impacting energy transition**.

Many national governments, such as the UK's, have been hugely influential in helping the renewable energy market grow. All governments must now view climate change as a global issue that can only be solved by global coordination.

Governments, like many that have done so in Europe, need to **set out a clear renewable energy generation procurement strategy**, so institutional investors can see the long-term investment opportunity and plan to invest in renewables accordingly. Collective action taken today will mitigate a far more chaotic and expensive mitigation plan in the future.

Yet there are hurdles that institutional investors need to overcome on the journey to a renewable future. The report highlights that the **challenges faced by respondents include external concerns like energy price risk, internal problems such as a lack of in-house skills and resources, and specific access and liquidity issues with particular asset classes**.

Barriers to investing as a result of Covid-19 and market volatility:

*Percentage of respondents and barriers cited.

Key findings

$742.5bn
the amount respondents plan to invest in renewables in the next 10 years

80%
plan to increase allocations to renewable energy infrastructure in the next 3–5 years

42%
invest in Europe, the number one destination for renewables investment

Pace of divestment slows amid the Covid-19 crisis:

4.5%
divested from portfolios
vs.
5.7%
in 2019

50%
said renewables have become more attractive investments during the Covid-19 crisis and associated downturn

43%
say liquidity is a barrier to investing in renewable energy, double the number in 2019

70%
believe climate change will form a core part of EMEA's recovery plan, but...

68%
say a lack of international collaboration is the key factor hindering energy transition

78%
expect pressure from millennials will boost demand for renewables

...only
15%
believe it will for the US' recovery plan

Many investors believe the Covid-19 crisis has the potential to accelerate the energy transition by creating post-pandemic recovery plans with built-in climate change initiatives.

Renewable energy in a Covid-19 world

Investment demand remains strong

The appetite for renewable energy assets among institutional investors remains strong, despite the political and economic challenges that lie ahead.

Institutional investors say that they will continue to increase allocations to renewable real assets irrespective of whether a post-Covid-19 economic recovery is gradual or whether there is a more persistent global economic slowdown. Their expected future allocation to renewable energy is set to rise to 8.3% in the next five years and 10.8% in the next ten years. This compares with 9.1% and 10.9% forecast over the same timeframes in 2019, before the pandemic had surfaced.

With the world facing significant challenges, the trend of increasing exposure to renewable energy over the next decade is set to continue – albeit at a slower rate than forecast in a pre-Covid-19 world. That said, the pandemic has had a short-term impact on current asset allocations. The proportion of funds allocated to renewable energy in 2020 reduced slightly to 4.2% from 4.6% in 2019 – but asset allocations are set to rise again next year to 5.7% (Figures 1 & 2).

> Double – the amount average asset allocations will rise by in the next ten years.

Resilience during the Covid-19 economic downturn to drive inflows

Half of those surveyed believe that the renewable sector has become more attractive during the Covid-19 crisis and associated downturn.

Of those who are currently invested in renewable energy assets, 63% said the crisis has had a part to play in improving growth prospects for the sector.

Figure 1: Renewables investment remains strong, despite Covid-19
(% of respondents' portfolios)

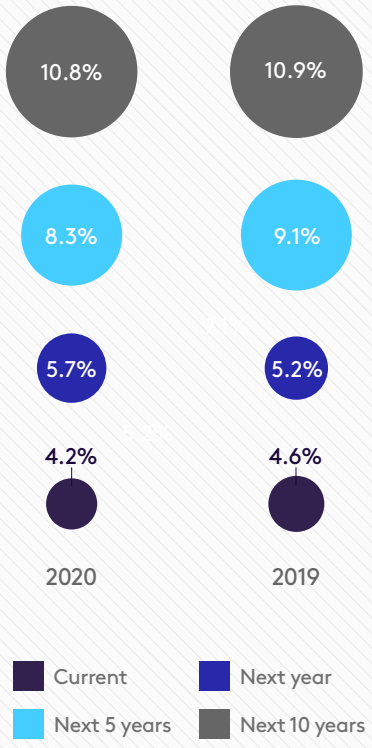
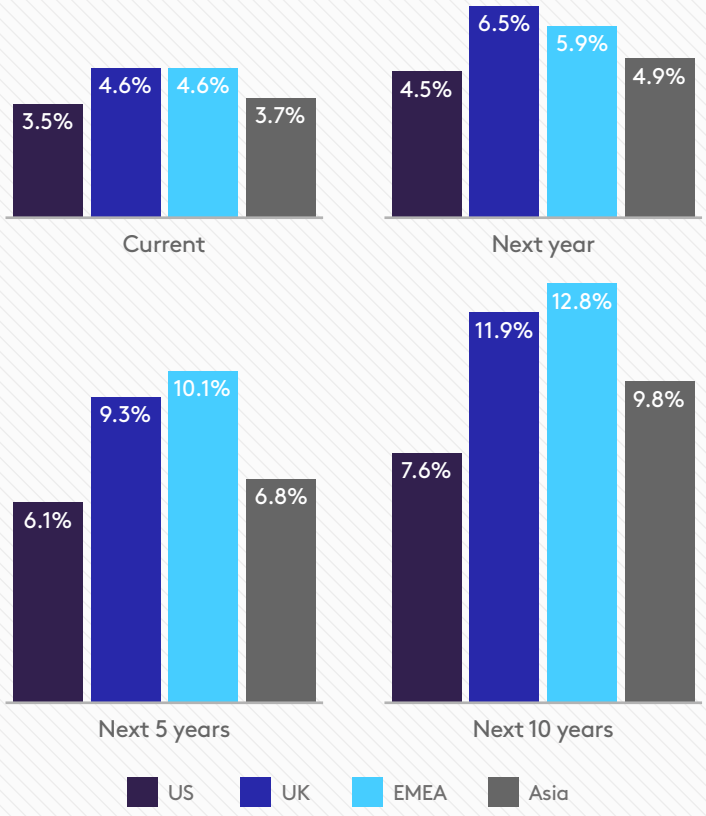


Figure 2: Renewables investment by geography
(% of respondents' portfolios)



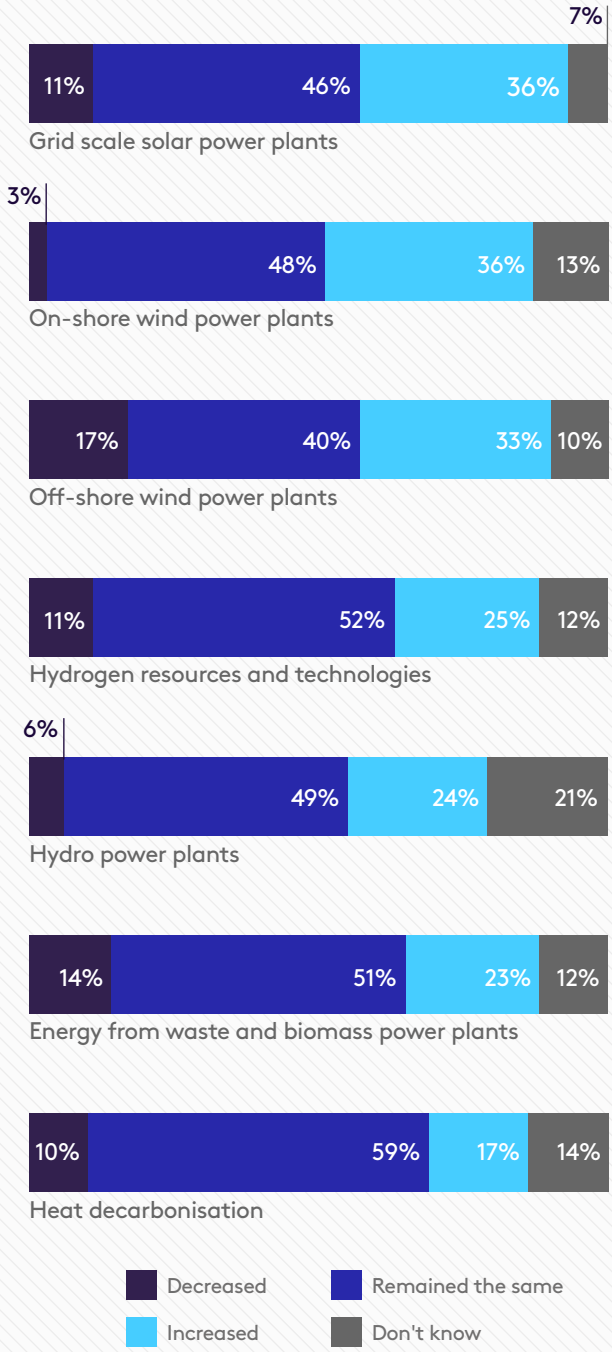
Meanwhile, some 55% believe that the crisis and associated downturn will buoy investment demand among institutional investors, with the same number expecting future capital inflows to rise.

Within the infrastructure sector, renewable energy infrastructure is set to be the beneficiary of this demand: four in five **(80%) global institutional investors are planning to increase allocations in this sector over the next three-to-five years**. The greatest increase is planned in wind and solar power plants, where costs have declined significantly in recent years.

The best performers across the wider infrastructure sector were information and communication technology, where 69% of investors had seen the value of their investments increase, renewable energy infrastructure (48%) and healthcare infrastructure (43%). The two sectors that stood out for suffering the most were transportation and logistics and real estate, where more than six in ten investors had seen values fall (Figure 3).

The renewable energy infrastructure sector can be divided into seven subsectors, including grid scale solar power plants and off- and on-shore wind power plants. **Since the outbreak of the Covid-19 pandemic, investors have seen the value of their investments either remain the same or increase across the vast majority of those subsectors**. The sector has shown itself to be resilient during this year of unprecedented challenge and market uncertainty.

Figure 3: Impact of Covid-19 crisis on the value of specific renewable energy infrastructure investment
(Change in value of sector investments)



Bullish return outlook for the sector over the next decade

Investors are positive on the level of investment returns generated by renewable assets, with more expecting higher returns by the end of the next decade. Almost half (45%) of institutional investors globally are confident the investment returns from impact investing will increase going forward. Half of institutional investors expect renewable energy to generate a net annual return of between 5–10% over the next 12 months.

Europe leads the charge

Institutional investors say that Europe is the most attractive region among investors when it comes to investing in renewables. Globally, more than four in ten investors currently invest in the region, while almost a third of investors would consider investing or increasing allocations in the next three-to-five years. North America is the second most attractive region, followed by the UK.

Investors in Europe, the Middle East and Africa (EMEA) expect to increase their allocations to renewable energy infrastructure in portfolios from 4.6% today to 10.1% in five years. They expect this weighting to increase further to 12.8% in ten years. Just behind in second place is the UK, where investors expect to increase their renewable asset allocations from 4.6% today to 9.3% in five years and to 11.9% in ten years.

45%

of investors are confident returns from impact investing will increase in the future.

Meanwhile, the US continues to lag other regions in terms of asset allocation levels. **US investors expect to increase their renewable asset allocation from 3.5% to 6.1% and 7.6% in the next five and ten years respectively**. However, these allocations are higher than investors anticipated in last year's survey when they expected their renewable asset allocations to be at 5.5% in five years and at 7.3% in ten years.

Away from home

Any notion of investors having a home bias when it comes to investing in renewable energy assets is dispelled in our survey. **Regional investors are diversifying away from home, which falls in line with the UN's Goal 7 to make renewable energy more sustainable and widely available**. For example, the top place to invest in renewables for US investors is Europe (39%), while UK investors have exposure to Europe, UK and North America. Some 43% of EMEA investors in renewables are currently targeting North America and almost 40% of Asian investors are targeting Australia.

Proactively active

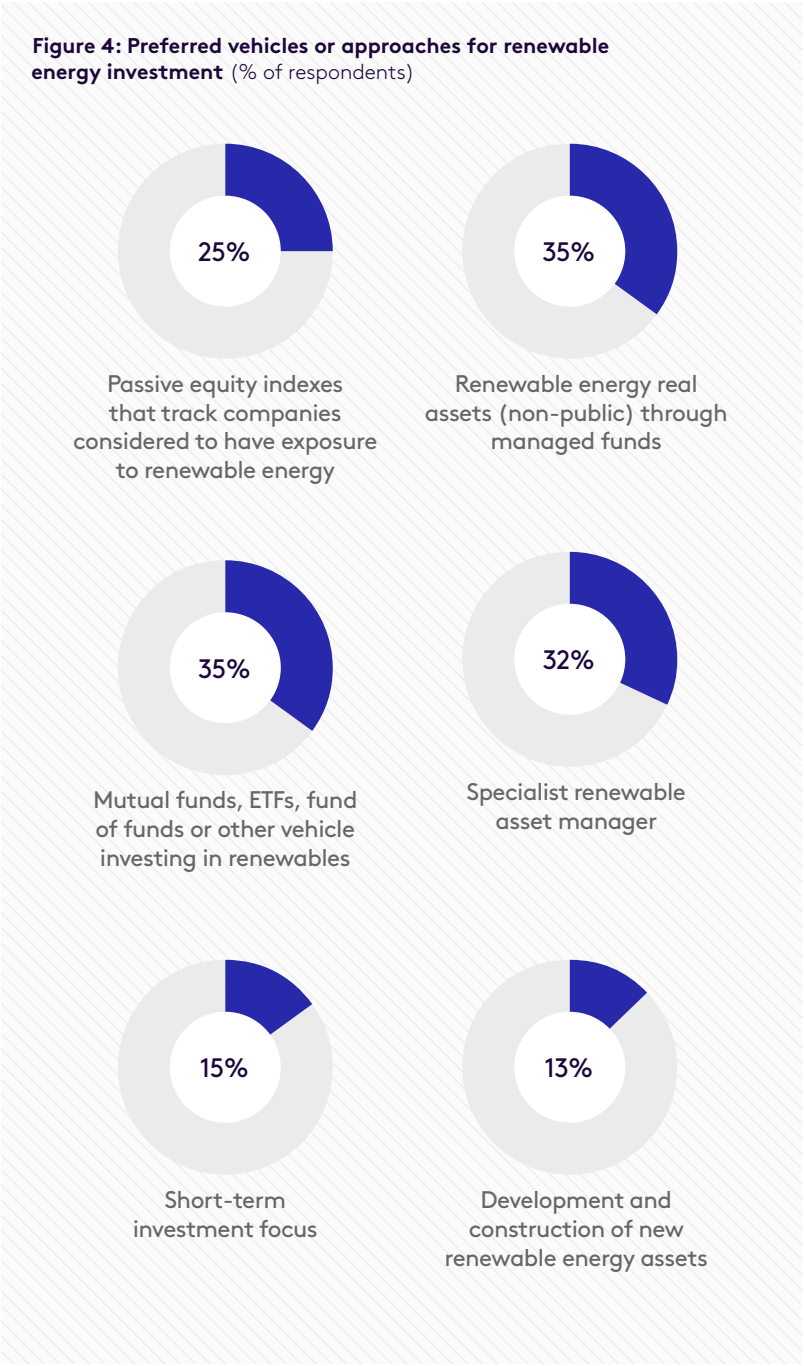
More than half (54%) of investors say thematic investing is their preferred approach to incorporating renewable energy investment into their investment process.

Actively managed mutual single funds, funds of funds and exchange-traded funds (ETFs) remain the most popular routes (35%), alongside non-public renewable energy assets via managed funds (also 35%). The third most popular route (32%) is specialist renewable asset manager products (Figure 4).

Performance and experience wins

Institutional investors confirm that performance is the most sought-after factor when selecting an energy fund manager (48%). Probably due to the recent market turmoil, extreme volatility and uncertainty, the next elements investors looked for in managers are size and experience of the team (40%) and investment strategy (32%).

Figure 4: Preferred vehicles or approaches for renewable energy investment (% of respondents)



Covid-19: will it hinder or speed up energy transition?

Divesting continues but pace slows

Increasing levels of divestment are a key barometer in measuring the pace of change and around $14 trillion has been divested from fossil fuels globally to date (up from $52 billion in 2014). This year sovereign wealth funds, global cities and major institutions have continued to up the ante by announcing pledges to divest from fossil fuel companies – Norway's government pension fund, New York, Milan, Cape Town, The Vatican and Cambridge University among them.

Our survey shows that while the level of divestment is set to continue to rise over the next one, five and ten years, it will do so at a slower pace. **Global investors divested, on average, 4.5% of their overall portfolio from fossil fuels in 2020 compared with an average of 5.7% in 2019**.

Given the political and economic uncertainties that prevail, investors have revised their divestment forecasts for the next one, five and ten years.

The greatest contraction is expected over the next five years while gradually picking up over the longer term. **The level of divestment is forecast to rise to 5.2% in the next five years and 8.6% in ten years, which is down from the 14.4% and 15.6% investors had anticipated over five years and ten years in our 2019 survey** (Figures 5 & 6).

Opinions are divided among investors on the long-term impact the Covid-19 crisis will have on divestment. Some believe it will slow the pace of energy transition from fossil fuels to renewables in the future, while others suggest it could accelerate increased demand for investment in renewables.

Figure 5: Pace of fossil fuel divestment slows
(% of respondents' portfolios)

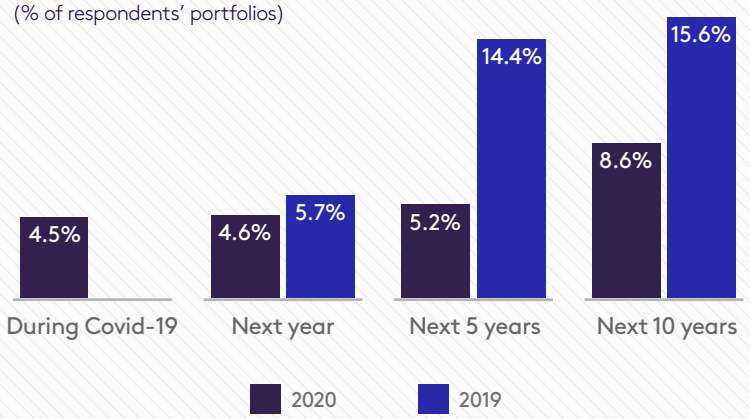
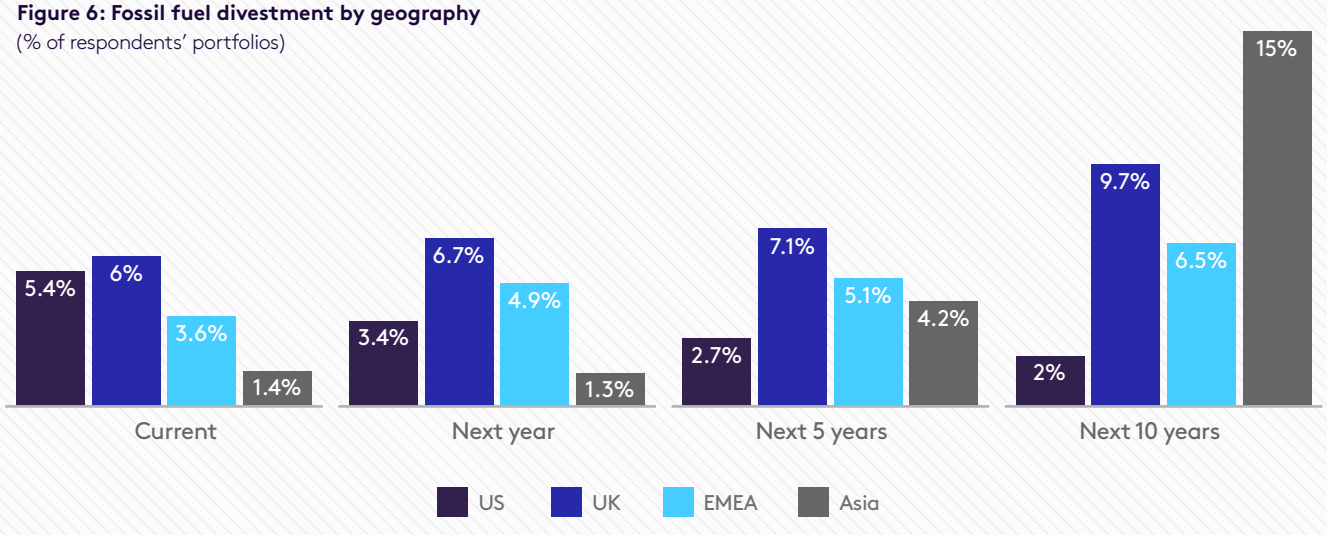


Figure 6: Fossil fuel divestment by geography
(% of respondents' portfolios)



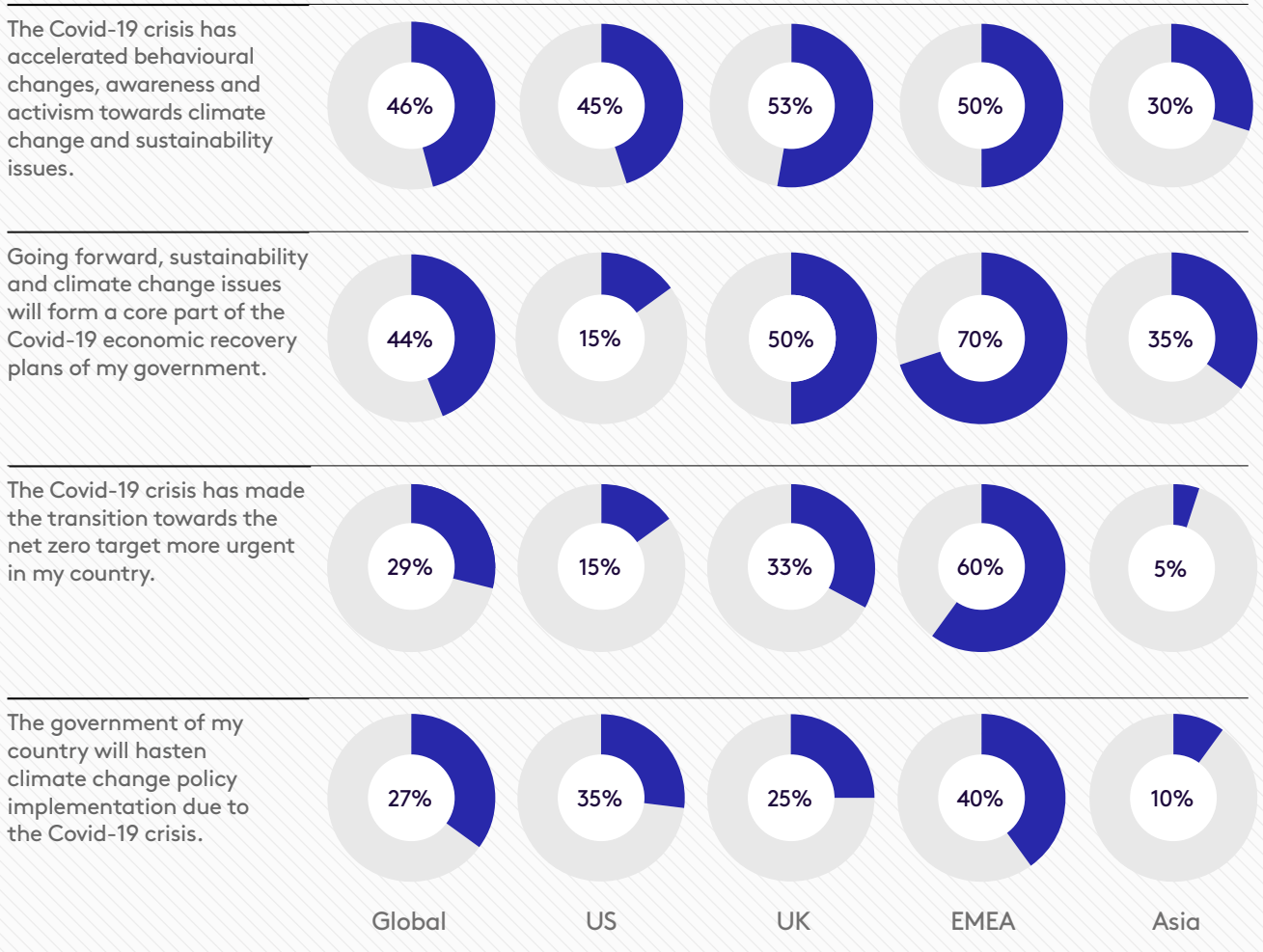
A catalyst for change?

Some investors believe that the Covid-19 crisis and economic downturn provide a catalyst, and an opportunity, to rebuild a cleaner, more environmentally friendly world as part of our recovery. The survey shows that 29% of investors think the pandemic has made the transition towards the net zero target more urgent in their country and 27% believe the pandemic will hasten climate change policy implementation.

On average, **44% of respondents also say that climate change issues will form a core part of their government's Covid-19 economic recovery plan**.

The EU has already stepped up to the plate with its recovery plan, Next Generation EU, committing at least 30% of funds to sustainable and low-carbon investment. However, investors' sentiments are not evenly echoed across all regions, with EMEA the most bullish and the US the most bearish on this front – **only 15% of US investors anticipate that sustainability issues will form a core part of their country's economic recovery plan** (Figure 7).

Figure 7: Attitudes towards climate change during Covid-19 (% of respondents in agreement)



International collaboration is key

Many investors believe that a lack of international cooperation will hinder the pace of energy transition. According to our survey, **more than two-thirds of global investors (68%) say the lack of international cooperation is the number one factor negatively impacting the energy transition**. Both the UN and the World Health Organization publicly denounced the lack of international collaboration over Covid-19 in the summer of 2020.[6] This apparent inability to address shared global challenges could explain the lack of confidence investors have in governments around the world pulling together and delivering on a faster energy transition to tackle the existential threat of the climate crisis (Figure 8).

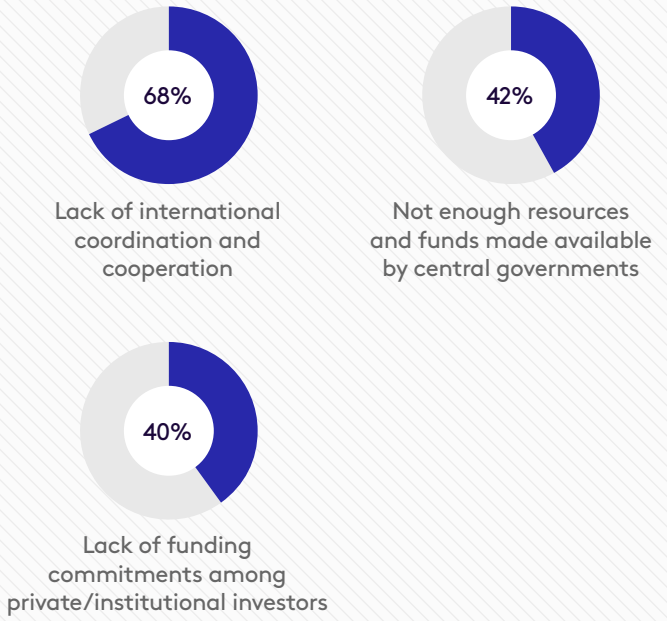
68%

of investors say the lack of international cooperation is the prime factor hindering the energy transition.

Make more funds available

Investors are also concerned that insufficient resources and funds are being made available by central governments (42%), which could hinder the decarbonisation of energy markets. Private markets can follow governments' lead and this concern is reinforced by the actions of G20 nations in response to the pandemic, which show that nations have committed more money to fossil fuels than renewables. Since the beginning of the Covid-19 pandemic to the end of September 2020, G20 countries had committed $388 billion to supporting different energy types through new or amended policies, of which more than $208 billion has gone to fossil fuels compared with $140 billion into clean energy.[7]

Figure 8: Key barriers standing in the way of energy transition
(% of respondents)



[6] Associated Press. [7] Energy policy tracker.

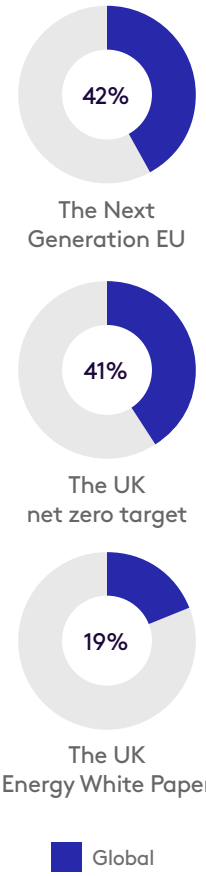
Central governments can make a difference

While the greater commitments to fossil fuels may be a symptom of the immediate remedial action in the wake of the pandemic, future regulatory, financial and political initiatives by central governments could influence whether more investors are encouraged to invest in renewable energy.

In our survey, **more than half of institutional investors say that legally binding climate change targets and initiatives to mitigate risk in renewable energy projects would improve investor sentiment towards the asset class**. Financial initiatives in the form of grants and government-backed price stability and liquidity-facilitating mechanisms would also provide a much-needed fillip to the sector.

More than 40% of investors are encouraged by specific initiatives such as the EU's recovery package, Next Generation EU, and the UK's net zero target pledge, believing they will lead to more investment in renewable energy in the future. However, **investors seem less than enamoured with the UK's forthcoming Energy White Paper, with barely one in five believing it will make a difference to investor appetite** (Figure 9).

Figure 9: Importance of initiatives in the UK and Europe for encouraging renewables investment
(% of respondents ascribing importance to initiatives)



> "More than **40%** of investors are encouraged by Next Generation EU and the UK's net zero target pledge."

Octopus-managed solar plant in Hampshire, generating 4.5GWh/annum.

The key drivers that will boost demand for renewables

Stable cash flow, high yields

The sheer size of fiscal and monetary policies implemented by central banks and governments to help keep economies ticking in the wake of the pandemic will most likely suppress interest rates for some years to come. Such a scenario means that institutional investors will have to continue to seek alternative ways to generate yield from portfolios – and renewable energy infrastructure assets with their stable cash flows and higher risk-adjusted income payouts offer a compelling option.

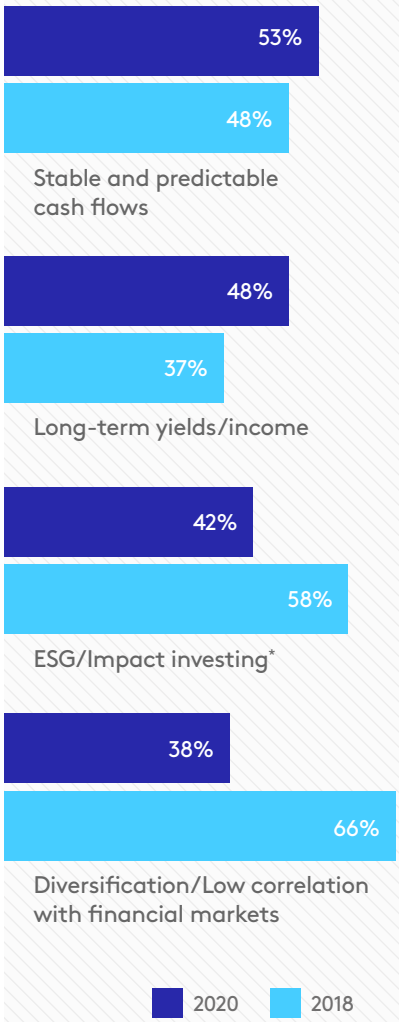
Investors searching for high yield are looking to renewable energy infrastructure assets, with global interest rates set to stay low for longer. **Some 86% of institutional investors globally say the prevailing low interest rate environment and volatility in equity markets are pushing them to seek uncorrelated sources of higher yield**.

This is borne out in the survey which shows that more than half of global investors (53%) point to the more stable and predictable cash flow achievable through renewables as a reason to invest. Almost half (48%) attach importance to its long-term yield outlook. The survey also shows that more than half of renewable energy investors expect investment returns and dividend income to either remain the same or improve despite the Covid-19 crisis (Figure 10).

86%

of investors are seeking uncorrelated sources of higher yield.

Figure 10: Top reasons to invest in renewables (% of respondents)



*Climate change, environmental sustainability, etc.

Millennial pressure

The low interest rate environment will not be the only influential driver to increase renewables investment. **Around eight in ten investors say that pressure from millennials, stakeholders and shareholders to invest sustainably to combat issues such climate change will boost investment demand for renewable assets.**

It is a theme the UK government has latched onto with its new Pensions Bill, due to be enacted at the end of 2020. Citing the fact that many more people now take a personal interest in how their own savings can play their part in getting Britain to net zero, the government said its new bill will give it the power to require pensions schemes to take account of net-zero targets, as well as the Paris Agreement goals, into investment decisions.[8]

Three ways to buoy renewables

Investors have been consistent in their beliefs for the past three years on the missing factors that could increase allocation to renewables: **greater access to renewable energy assets; better pooled investment vehicles; and increased investor interest in environmental, social and governance (ESG).**

78%

of those who responded are expecting pressure from millennials to boost demand for renewables.

[8] Gov.uk

Removing the barriers to unlock renewables' full potential

The appetite for investing in renewable energy infrastructure remains strong but there are barriers that, if overcome, could result in increasingly higher asset allocations into renewable energy investments.

Improve liquidity

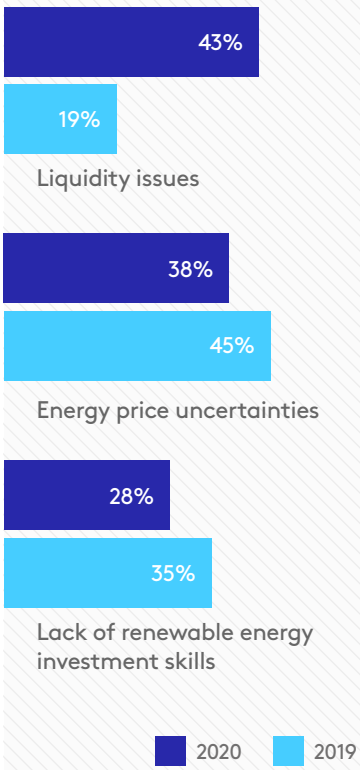
The illiquid nature of renewable energy infrastructure assets has been a barrier to some investors in our previous surveys, but this year's market volatility triggered by the pandemic appears to have focused investors' minds further. Investors would have been reviewing all asset mixes, seeking to stabilise mandates and portfolios amid unprecedented challenging conditions. It is not altogether surprising then that **concerns of liquidity – or a lack thereof – more than doubled this year and is the biggest challenge for global investors (43%), compared with it being the third most challenging issue in 2019 (19%)** (Figure 11).

To break down this liquidity barrier, almost two-thirds of investors (64%) believe that a bigger pool of renewable energy companies on public markets will ease concerns and unlock further investment opportunities for hesitant investors. Over half **(58%) also said that having a longer proven track record for buying and selling operational renewable assets will ease liquidity challenges**. A further 39% suggest that improved innovation in renewable products, such as derivatives, that are traded on liquid markets will improve sentiment (Figure 12).

43%

say liquidity is a potential barrier to investing – more than double the number in 2019.

Figure 11: Barriers to investing in renewable energy



Give energy prices certainty

Energy price uncertainty is less of a barrier in 2020 than it was in previous surveys, when it was deemed to represent the biggest challenge to investors. This year, 38% of respondents said it was an issue compared to 56% of respondents in 2018. To get greater energy price certainty, 51% of investors want a deep and liquid market for long-term power purchase contracts with investment-grade counterparties. However, US investors are an outlier, with 60% of investors citing uncertain energy prices as the biggest challenge and just 25% saying liquidity is a major obstacle to investing in renewables.

Greater access to specialists

A lack of skills and resources is also considered a barrier with almost half **(52%) of respondents saying that greater access to specialist managers would help unlock further investment in renewable energy**. This is a slight increase on the number of investors who cited this as a barrier in 2019 (48%).

Raising the ESG bar

While greater access to renewable energy assets and better pooled investment vehicles will help increase allocation to renewables, so too would **increasing investor interest in ESG – with 40% of respondents believing this will open the doors for further investment to new investors**.

Figure 12: Solutions to help solve these barriers and unlock further investment (% of respondents)

	2020	2019
Liquidity issues		
Increased pool of renewable energy companies on public markets	64%	64%
Longer proven track record for buying/selling operational renewable assets	58% ↑	57%
Innovation in renewable investment products (e.g. derivatives) that can be traded on liquid markets	39% ↓	40%
Change in regulations that require liquidity within a fund	16% ↓	19%
Fiduciary duties around reallocation	16%	–
Energy price uncertainties		
Liquid and deep market for long term power purchase contracts with investment grade counterparties	51% ↓	55%
Government subsidies	42%	–
Access to portfolio diversification across different energy markets	42% ↓	44%
Government stability mechanism for energy prices	35% ↓	54%
Government tax breaks	35%	–
Education on sensitivities to energy price movements and underlying drivers	28% ↓	31%
Reduction in leverage	24% ↑	8%
Government promotional campaigns	21%	–
Lack of investment/asset management skills and resources uncertainties within my organisation		
Access to specialist managers that can invest/manage assets on my behalf	52% ↑	48%
Deeper pool of talent in sector to employ	48% ↑	30%
Increased allocation of Funds Under Management to renewables within organisation to justify more investment	42% ↓	48%

Scrutiny falls on oil and gas majors

Oil and gas majors have been in the spotlight as demand for the commodities slumped when lockdown gripped the world. Oil prices fell sharply (in some cases into negative territory for the first time) and share prices of many oil and gas companies tumbled.[9] They have also been under scrutiny and pressure to speed up their energy transition programmes.

During 2020, several of the oil giants have publicly laid out their plans to become cleaner energy operations in the future. BP, for example, announced that it was going to ramp up its investment in wind and solar power and remarked that "renewable energy will play an increasingly important role in meeting the world's growing energy needs".[10]

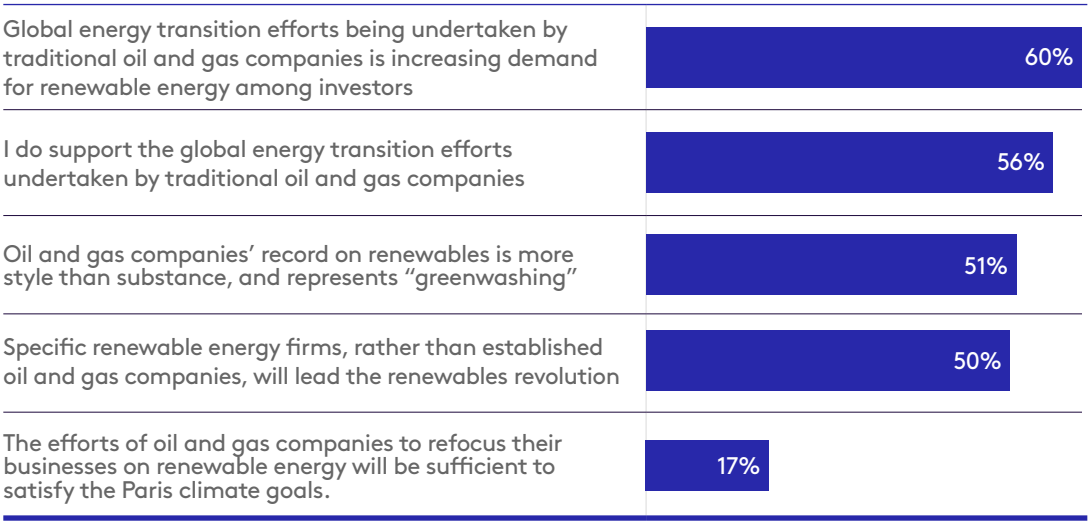
The public stance from major fossil fuel companies to step up their efforts is broadly welcomed by global investors. **More than half of respondents (56%) support efforts by oil and gas companies to become cleaner energy operations, with six in ten (60%) agreeing it will boost demand for renewables.**

However, **half of respondents in our survey say that it will be the specific renewable energy firms that drive the renewable revolution**, but there is no reason why traditional energy companies and renewable specialists cannot work symbiotically. Oil companies will most likely focus on project portfolios in the development stage, while specialist energy fund managers will typically invest in projects either ready for construction or already in operation.

There is, however, a degree of scepticism on the motives behind oil companies' foray into renewables. Some **83% of investors don't believe oil and gas companies' plans will be sufficient to satisfy Paris Agreement goals, while more than half (51%) of institutional investors say that their record on renewables is more style than substance** – and represents nothing more than greenwashing (Figure 13).

> "There is no reason why traditional energy companies and renewable specialists cannot work symbiotically."

Figure 13: The role of oil and gas companies in the energy transition (% of respondents in agreement)



[9] Statista [10] Energy Outlook 2020 edition.

Investors remain positive on the future of renewable energy assets, despite the unprecedented times and challenges that Covid-19 has brought.

Conclusion

The pandemic has reignited and stirred the climate change debate as we are forced to confront the severity of an existential threat. The mood has changed. We now need to seize this opportunity to build a global post-pandemic economic recovery that simultaneously opens up the renewable energy sector to attract the capital needed to tackle climate change.

There are signs of early momentum. The EU has committed around a third of its post-pandemic recovery funds to sustainable and low-carbon investment. Here in the UK, the prime minister has set out government plans to bounce back greener and become a world leader in low cost clean power generation.

With trillions of dollars under management, institutional investors have a key role to play in the fight against climate change, and it is reassuring that they remain positive on the future of renewable energy assets despite the unprecedented times and challenges that Covid-19 has brought to us all. Our research clearly shows that institutional investors are expecting to increase allocations to the asset class over the next decade, so much so that they anticipate them doubling from here. These are assets that deliver long-term, predictable income – a highly attractive attribute in a low-yield macroeconomic environment.

> "Capital markets alone cannot solve the energy transition conundrum."

In last year's report we looked at the levels of divestment, which was the primary means by which institutional investors were looking to tackle climate change. This year, investors have revised their divestment levels down, suggesting the pace will slow – although crucially, without reversing. Whether investors' conservative long-term forecasts prove temporary and are simply symptomatic of the prevailing uncertainty will be borne out in coming months. Certainly, there appears to be no let-up in the number of organisations and pension funds publicly pledging to cut their exposure to fossil fuels.

Yet capital markets alone cannot solve the energy transition conundrum. Actions in favour of the energy transition must be supported by global cooperation frameworks characterised by the pursuit of environmental targets, financing and policy development. We have seen some positive progress. Earlier this year, the UK, for instance, laid out revised plans for offshore wind farms on usage, capacity and pricing. These can be the blueprints for other governments around the world to follow. We now also need similar roadmaps for all types of renewable energy – not just offshore wind – from solar to hydro, including building dynamic energy systems to provide paths for investment at merchant risk.

Specialist renewable energy fund managers have worked to encourage greater investment in renewables, but challenges remain. As our report highlights, **we need to break down barriers such as liquidity, uncertain pricing and a lack of global government cooperation** that are preventing institutional investors investing in renewable energy. We also need to recognise that there will be multiple routes to market and an opportunity for a variety of investors, including those who have not traditionally invested in energy assets, all to play a role in tackling climate change and achieving the energy transition that is so urgently required.

Breaking down such barriers presents both a challenge and an opportunity for **specialist energy managers to unblock investment and attract more investors – making a positive contribution to climate change while generating returns for investors**. Greater access to renewable energy assets and better pooled investment vehicles are part of the answer.

The pandemic has, arguably, shown that on a global scale, international collaboration has been limited. Our survey suggests that the inability of the international community to address shared challenges such as Covid-19 has been felt by institutional investors. Confidence is low that either nations or governments will join forces to tackle climate change with tangible actions, not just words. **The UK, in its 2021 G7 presidency role, can restore confidence**. It can champion greater collaboration between governments for a coordinated effort to tackle climate change. Fund managers, investors, bankers, and the oil and gas majors must play their part too.

Renewable energy has proved an incredibly attractive asset class in the face of this year's volatility. We now need to unlock its potential further by creating an environment that encourages more investment and a greater divestment of fossil fuels. We need to build on the momentum and rebuild post-pandemic economies sustainably. But for it to succeed, we must all pull together.

> “We need to build on the momentum and rebuild post-pandemic economies sustainably. But for it to succeed, we must all pull together.”

Methodology

CoreData Research was commissioned by Octopus Renewables to conduct a study of institutional investors, to better understand their views about the role of renewable energy investments amid the Covid-19 pandemic. The fieldwork was conducted by CoreData Research in September 2020 via an online survey. The sample includes 100 respondents from the UK, EMEA, Asia and the US. The respondent pool represents a spectrum of organisations including pension funds, fund of funds, insurance companies, private banks, sovereign wealth funds, endowments and foundations. The total assets under management of the sample is an estimated $6.9 trillion.

CoreData research

Established in 2002, CoreData Research is a global specialist financial services research and strategy consultancy with operations in Australia, the UK, the Philippines, the United States, Malta and Colombia. With a primary focus on financial services, CoreData Research provides clients with both bespoke and syndicated research services through a variety of data collection strategies and methodologies, along with consulting and research database hosting and outsourcing services. CoreData Research provides both business-to-business and business-to consumer research. Its offering includes market intelligence, guidance on strategic positioning, methods for developing new business, advice on operational marketing and other consulting services.

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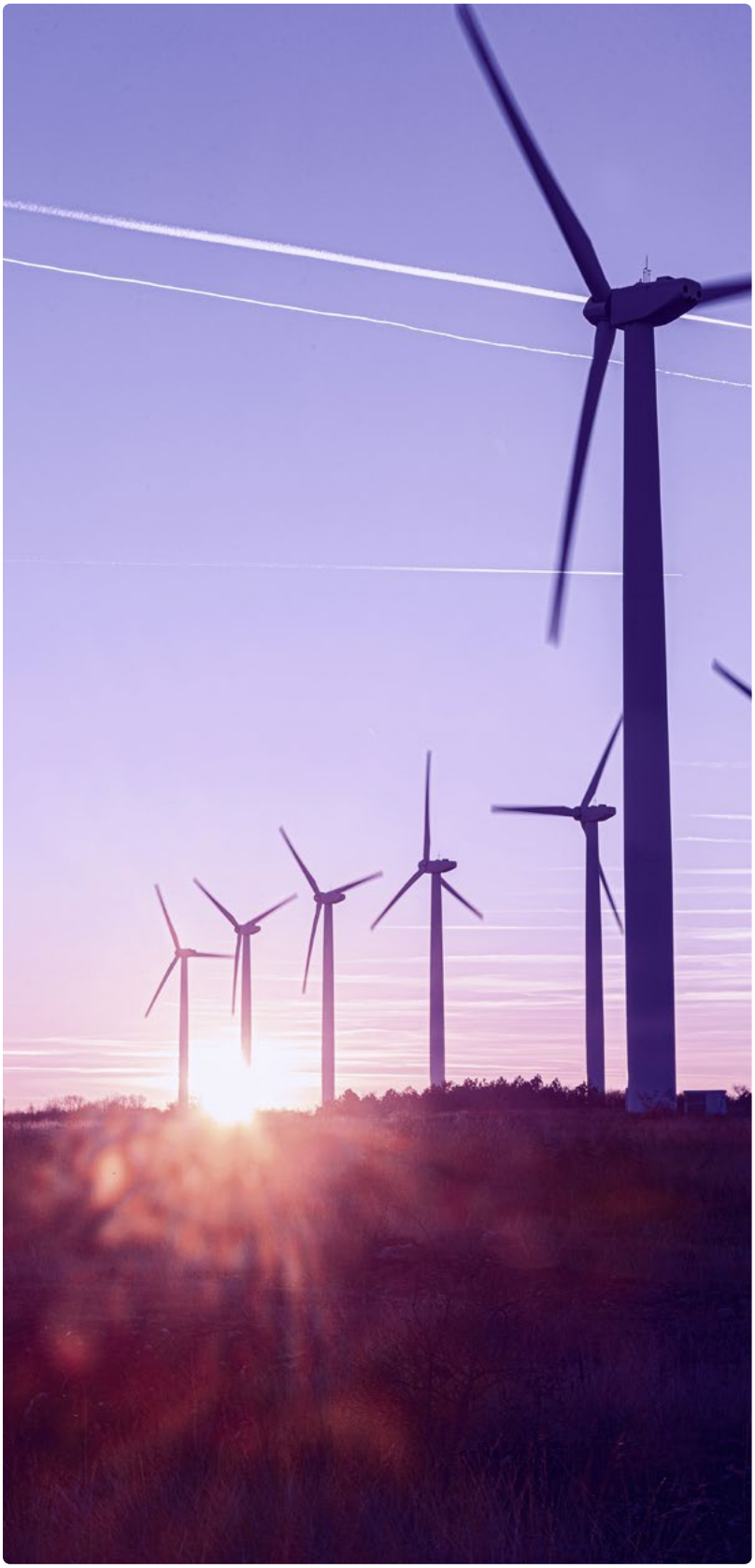

About Octopus Group

Octopus is a group of companies that invests in the people, ideas and industries that will help to change the world.

Octopus Group

We currently manage more than £9.1 billion on behalf of our customers. Octopus Energy, Octopus Investments, Octopus Real Estate, Octopus Renewables and Octopus Ventures are all part of Octopus Group. Of the £9.1 billion we manage, £2.5 billion is on behalf of institutional investors. We are a specialist investor in real assets, private credit and high-growth small businesses.

We offer institutional investors access to sterling-denominated investments in mainstream sectors of the economy. Our assets are long term in nature, cash-yielding and resilient to economic headwinds. The Octopus team is made up of over 125 investment professionals and we have almost two decades' experience of operating in our chosen markets.

Octopus Renewables

Octopus Renewables, part of Octopus Group, is a specialist clean energy investor and our mission is to accelerate the transition to a future powered by renewable energy. We have a diverse portfolio of assets with a capacity of over 2.6GW, making us the largest commercial solar investor in Europe and a leading UK investor in onshore wind. Octopus is also leading the next wave of renewables being built across Europe and Australia without government subsidies. We believe there is a significant opportunity to unblock much needed investment by building bespoke portfolios of renewable assets at scale, across technologies and countries, to create better outcomes for our investors.

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