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## Shelter from the storm?

**Green investment may have been full of thrills – but can it thrive in today’s more constricted climate? **Mike Scott** considers its credentials as a safe haven for the longer term investor.**

Money was pouring into the environmental sector last year. ‘Clean tech’ stocks were all the rage, especially where credible renewable energy was on offer. But short term market watchers have detected a wobble. The NEX index, which specifically tracks clean energy stocks worldwide (and rose by an impressive 57% in 2007), fell almost 18% in the first quarter of 2008.

So has the chill whiff of recession choked off the growth of green investment? Not according to Amanda Davidson of financial advisors Baigrie Davis. “Despite short-term volatility,” she says, “the right areas will come good.”

That does not mean that environmental companies are going to be immune to an economic downturn, says Stephen Hine at Ethical Investment Research Services (EIRIS), but they will be well placed to take advantage of a number of underlying trends. “You should not take a one-year view, you should be looking for good steady growth over a long period,” he argues.

Volatility may be an inherent characteristic of the environmental sector, with its many small, early-stage companies often working with commercially unproven technologies.

But the long-term rationale is clear enough to counsel against reading too much into that first quarter dip. The assessment in the Stern Report, that the market for environmental products and services would reach \$500 billion a year by 2050, now seems if anything an understatement. What’s more, says Alice Chapple of Forum for the Future, “as clean technology matures, investors will become much more sophisticated and discerning”.

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***“Green is now seen as one of the biggest investment opportunities there is”***

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As director of sustainable financial markets at the Forum,

Chapple is only too aware that ethical investments still suffer from the City's short-term focus: "You don't get any credit for doing something with a 20- year return..." While acknowledging that environmental and social concerns don't always go with the best financial performance, Chapple believes that "green is no longer seen as just an ethical choice, but as one of the biggest investment opportunities there is".

Indeed, as Hine points out, some of these environmentally focused funds aren't necessarily even very ethical, in the traditional sense. "Clean technology funds are not 'dark green' because they do not necessarily look at the environmental credentials of the companies they invest in," he says. "Making photovoltaic cells, for example, is energy intensive and creates a certain amount of pollution – but is clearly a good way of tackling climate change."

Mind you, the UK ethical (as opposed to purely environmental) investment market has come on by leaps and bounds too. An impressive 15% of new investment in 2007 went into ethical funds, says Davidson. That brought their total value to almost £9 billion in 2007. While that's only 1.5% of the value of total funds under management, it does mean there are now almost 100 ethical funds to choose from – and a whole range of other 'green' financial products too, from mortgages to ISAs. People choose them, say wealth managers Holden & Partners in their *Guide to Climate Change Investing*, in the hope that they will be "supporting companies that protect the environment, and avoiding those which do it excessive harm". In practice, however, it's worth remembering that many socially responsible investment funds actually put a high proportion of their money into "large companies which are far from cutting edge in terms of providing climate change solutions".

But if purely clean tech investment is what you are after, there is plenty of choice. According to sector analysts New Energy Finance, no fewer than 16 funds were launched in 2007 that have more than 50% of their cash in clean or efficient energy companies. A total of \$150 billion was invested worldwide last year in clean energy alone, and shares in solar companies on the NEX index rose by an eye-popping 163%.

On a rather different scale, social bank Triodos is providing crucial support for innovative small companies like Marine Current Turbines. Triodos's 2005 share issue produced a return of almost 23%, or an average of over 7% per year, and more recently they've been raising capital via another £8.5 million share issue specifically to invest in renewable energy companies.

Established environmental funds such as Impax invest not just in energy, but in areas like waste management and water too. Waste is a £150 billion a year global market, and the £200-£250 billion water market can only grow as antiquated infrastructure in Europe and the US is replaced, and new supplies installed in emerging markets. Add to this the challenge of dealing with

water-borne diseases, and securing supplies that will be restricted by climate change, and it is not hard to see why companies such as Pictet and SAM (Sustainable Asset Management) have launched water funds.

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“In times of turmoil,” says Emma Howard Boyd, head of SRI and corporate governance at Jupiter Asset Management, “people seek sanctuary in large caps, which hits some green funds in the short run, but in the long term, things can only go in one direction.”

#### Jupiter's drivers

Emma Howard Boyd identifies three key drivers for growth in Jupiter's Ecology Fund, which celebrates its 20th anniversary this year.

- Governments are taking action. Measures such as the EU Emissions Trading Scheme and the UK Climate Change Bill, for instance, push companies to fall into line with targets to cut carbon emissions.
- Consumers are demanding sustainability. UK sales of organic food, cosmetics and clothes hit £2 billion in 2007, and more than eight out of 10 consumers in a survey by Co-operative Financial Services said they'd prefer an 'eco-friendly product' if there was a choice.
- These two factors combine to provoke a response from businesses which see an opportunity to make money.

***Mike Scott is a freelance writer specialising in environmental and business issues.***

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