

*Putting Knowledge Into Action*

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## **Green: The Rise of a New Investment Asset Class**

*By Peter C. Fusaro  
Chairman, Global Change Associates  
UtiliPoint Affiliated Consultant*

The continuing financial storm is damaging investor portfolios, but there is safe harbor in this maelstrom and that safe harbor is green. The rising green investment sector is not correlated to many other asset classes. Green encompasses a variety of financial instruments and opportunities. While it can be argued that it is relatively small today, the uptrend will continue for many decades, despite all the analogies to the tech bubble and the dotcom crash. *What is really being addressed is the decarbonization of the global economy.* It is a decade-long process that will re-evaluate investments, assets and companies going forward. Green screens are beginning to emerge and they do some of this analytical work but the bottom line question is, “Will green bring green returns?”

Today, the sector is admittedly small, and fat with hype and fluff—the numbers show that. There was \$5.18 billion in global investment in cleantech last year, according to the Cleantech Venture Network. There was \$4 billion in energy company research and development for last year. There was \$7.5 billion for the U.S. Federal government for 2007. There was a scattering of multibillion carbon hedge funds, with most green hedge funds relatively small. And the list goes on. While carbon trading reached \$64 billion last year, those are not investment dollars. I size the market at around \$25 billion and growing. One major uplift in the market last week was the extension of the ITC for solar for eight years. That gives renewables a longer-term runway in the United States, finally. One analyst stated that this stroke of the pen created a \$500 billion solar industry in America.

### **What I Classify as Green**

An emerging sector needs emerging metrics. My simple process for green investment includes renewables, information technology, enabling technologies, smart grid, batteries, forestry, water, carbon and several others. Since we track hedge funds through our Energy Hedge Fund Center ([www.energyhedgefunds.com](http://www.energyhedgefunds.com)), we can tell you that the

number of energy hedge funds is currently 91. Four years ago there were only half a dozen. This is a considerable gain. Those strategies are well-defined in long/short equity in cleantech, renewables and water, and commodity investment in carbon trading and projects, water rights, weather derivatives (correlation to climate change risk), and forestry. When we have critical mass, there will be more substrategies for investors. Each of these sectors reduces emissions, deploys renewable and energy efficiency, and helps the planet.

The sector that has been a significant uplift by demonstrating higher sustained energy prices has been energy efficiency, but not as a commodity (“white tag”) market yet. The trading of energy efficiency credits will create another asset class to facilitate more technology transfer. .p> Carbon trading offers that same value. A price for carbon emissions presents a facilitative mechanism for investors' *pro forma* in project finance and cleantech venture investments. It is now a price of zero for U.S. carbon but that will change.

### **Not All Risk is Bad**

The woefully under-invested sector of energy and water infrastructure offers great investment opportunity for investors who have vision and can tolerate risk. Not all risk is bad. If we are going to create a green future, there will be market and technology failures that go with the territory. The better news for investors is that risk capital is available for this sector despite all the pessimism on Wall Street and Main Street. Change is hard work, not for the weak of stomach. Invoking change means diligently staying the course when others are panicking, just like today. It means deploying more capital to rebuild the U.S. economy into a green engine and into a global economy that can leapfrog into better technology deployment. The need for \$2 trillion in energy and water infrastructure will require regulatory certainty in the rules on climate change, renewable portfolio standards, and decoupling, but will be the purview of the private sector to fund. Today, there are over 4,000 private equity funds that have soft-circled cleantech and renewables for scaling investment. They are presently sitting on their powder, but change is coming.

### **What a Green Future Really Means**

I read an article recently stating that New York and London will come back as financial centers since the concentration of brain power isn't moving anywhere else. The same is true of investment in green. Glossy magazine covers are nice, but effective heavy lifting requires investment capital to be deployed on projects with long lead times. That means patience and vision. Four to seven years are typical lead times for energy projects to be completed, and up to 10 years for venture capital investment to bear fruit. That means no quick fixes. The end game is use of less energy, but in a more environmentally benign way with little economic sacrifice. That means more deployment of energy efficiency including retrofitting tens of millions of existing buildings. We have done this before. It was called the 1970s when we had two oil shocks. Now, we have the price floor of expensive energy and despite all the railings of lower energy prices they are substantially higher than four years ago. We are on the cusp of major technological innovation in the clean energy sector. We have more interest from both investors and young people wanting to enter this sector (so-called “Renaissance Generation”). Now is the time for both the political will and financial courage to create that green future. It means public

policy that is long term and private sector capital deployment that will be unprecedented. The United States is still a rich nation, but one with a bruised ego. We are a \$14 trillion economic engine with great pools of wealth. Fear cuts both ways—"fight or flight." It is time to create the green future that has been dreamed about, but requires the capital to make that dream come true!

Peter Fusaro is holding two carbon seminars at the CME Group's Green Exchange on October 14 -16th in New York. For further information, go to [www.pgsenergy.com](http://www.pgsenergy.com).



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