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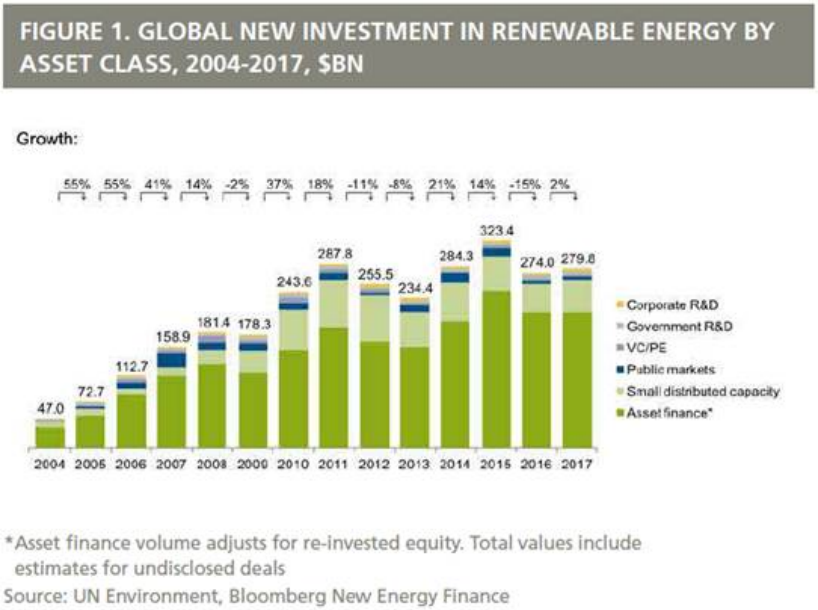
# Jupiter Marker Comment by Charlie Thomas, Head of Strategy, Environment and Sustainability

# Has renewable investment already peaked?

***Long-range forecasts suggest wind and solar will play an increasingly important role in the global energy mix. So why has the amount of money invested in renewable power fallen since 2015?***

On many measures, renewable energy markets are flourishing. Last year, renewable technologies accounted for 61% of new power capacity, increasing from 23% ten years prior and far out-stripping the 70GW of net fossil fuel generating capacity added in 2017. And expectations for the future suggest the industry will be in rude health for some time yet. In fact, Bloomberg analysts envisage a not so distant future in which wind and solar will account for some 48% of installed capacity and 34% of power generation, a huge leap from where we are now.




Source: http://fs-unep-centre.org/sites/default/files/publications/gtr2018v2.pdf

Yet, since the start of 2016 the amount of money invested in global renewable energy capacity has fallen, a fact that seems counterintuitive given the sector's healthy growth and project pipeline.

So what's causing this fall in investment? Oddly enough, it's due to the driver behind the boom: a dramatic drop in costs. Last September, two UK-based offshore wind projects won contracts at £57.50 per megawatt hour (MWh), placing these schemes among the cheapest electricity generated in Britain. And these costs are expected to decline further. Estimates suggest the levelized or lifetime cost of electricity from solar could drop by a further 66% by 2040, while offshore wind power could see a 71% decline.[1]

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***About Jupiter***
*The listed British investment manager with boutique-like investment approach, located in London and founded in 1985, employs more than 400 employees worldwide (thereof about 35 fund managers). Today Jupiter is one of the UK's most respected asset management groups. „The Jupiter Global Fund SICAV" (a Luxembourg based UCITS structure) provides clients outside the UK access to the diverse investment capabilities through its 22 sub funds which are registered for distribution in several European countries. Jupiter's total AUMs are Euro 56.5 bn as of 31 December 2017.*

[1] Source for all figures in this paragraph: Bloomberg New Energy Finance, New Energy Outlook, 15.6.2017, pg.3-4

**What does this mean for the investment opportunity?**
Falling costs in the renewable energy sector are a sign of a rapidly maturing industry, which is attracting finance from large investor groups and ambitious developers. We believe the key consideration is whether the competitive tension amongst groups of project developers and renewable technology companies will remain healthy – driving down project costs and expanding the market for renewable energy, while sustaining attractive margins for equity investors.

Meanwhile, open tenders for energy capacity mean that different types of renewable technologies are beginning to compete with each other and not solely against fossil fuels. While this makes sense from a cost point of view, competition between wind and solar has led to changes in business models. Vestas, for example, is repositioning itself as a provider of sustainable energy solutions rather than just wind energy technologies.

**A tipping point: Low-carbon ecosystems**
For all the progress that renewable energy has made, energy markets face a tipping point: breaking through the energy grid's current 35%-40% renewable energy limit.

This is rapidly becoming a constraint on further growth. Much of the world's grid infrastructure relies on predictable power, and given that the recent growth in renewable energy has been increasingly skewed towards variable sources breaking this barrier is proving difficult. The race is therefore on to lift this rate while maintaining the grid's stability. Leading the charge are countries that already have high amounts of variable renewables. Ireland set a new benchmark announcing that its grid can handle up to 65% variable renewable power at any time and is now focussed on hitting the 75% mark.

Conquering this tipping point requires a combination of solutions: smart renewables and grid connections, and an emerging role for new forms of energy storage. Together, these are real-world low-carbon ecosystems addressing the challenge of what researchers at London's Imperial College Energy Futures Lab recently summarised as an "interdependent, but not integrated, energy system".[2] Equally exciting are businesses developing and integrating new technologies. The combined energy storage and solar facility at the 50-megawatt Gannawarra Solar Farm in Victoria Australia will enhance the local grid and provide solar power at night.

**Missing the bigger picture**
Renewable energy costs are likely to continue on a downward path for some time yet. As a result, we expect to see investment in this area pause for longer or even decline further, even as installed capacity grows. We believe focusing on renewable energy investment in isolation, however, misses the bigger picture. With new solutions emerging in areas such as grid infrastructure and energy storage, capital is being invested across a wider low-carbon ecosystem. We therefore see real potential for overall investment rates to expand, supporting a new pool of investment opportunities for our portfolios.





[2] https://www.imperial.ac.uk/news/185893/carbon-future-needs-integrated-energy-system/