Climate Change on the Capital Markets

Between 30th November and 11th December 2015, diplomats attending the UN climate change conference in Paris will barter for commitments on global warming. It will not only be environmentalists following the results of these political negotiations with nervous anticipation. When the Allianz insurance giant announced its 'exit from the coal industry', the economic sustainability of fossil and atomic business models was definitively put into question. The results of such divestments are providing new opportunities for attractive clean-tech projects.

The inevitability of climate change is, for most experts, beyond question. A corresponding signal was also sent by the G7 summit this year from Schloss Elmau, where the leaders of the largest economies agreed to reduce the global emissions of greenhouse gasses in this century to zero. The G7's aim is to align their exports and insurances to the requirements of climate protection. By 2050, summit participants want to shift their energy provision as far as possible to renewable technologies, while cutting global CO2 emissions to just one third of their 2010 levels.

Whether this resolution, already widely celebrated, as being of historic significance, will also be adopted in Paris, remains to be seen. It was, after all, just six years ago, that at the UN Climate Conference in Copenhagen, the global community was unable to reach agreement on binding CO2 reduction measures. Yet maintaining the status quo can and must not happen, if only for reasons of macro-economic opportunity costs. It is clear that the global over-exploitation of natural resources in the medium and long term future will come at a very high cost and with risks attached that simply can no longer be financed.

Divestments are rising

Against this backdrop, the trend towards divestment has risen appreciably on the markets: Whether it be the Rockefeller family, the Swedish pension fund AP4, or Europe's largest asset management company Amundi, investors are pulling their capital out of oil, gas, atomic energy, and above all, out of coal - and on a global scale. Their calculation is simple: Without further political and economic support, the use of fossil fuels and atomic energy is coming to a standstill, because deals in global warming are no longer profitable.

According to information provided by the US initiative 'Fossil Free', around 500 major investors, controlling finances in the region of 2.6 trillion US Dollars, plan, at least in part, to withdraw from investments in fossil fuels. To put this into perspective, the Financial Times reported the combined market value of the 500 largest global companies from the electricity, mining, oil, and supply sectors as being approximately four trillion US Dollars in March 2015.

Alongside the institutional investors, an increasing number of private investors, asset management firms and charitable foundations are deciding to divest. This is a trend that is also being followed by municipalities and universities. Prominent examples in the USA include the cities of San Francisco, Seattle, and Princeton University. In Germany, the municipality of Munster decided to withdraw public funding from climate-damaging industries. The corresponding motion states that the city will no longer give money to companies, 'that produce atomic energy or engage with non-sustainable and climate-impacting energy.' This also applies to investments that, for example, promote fracking, utilize child labor, produce weapons, or involve the genetic manipulation of plants. The corresponding city-owned funds have been instructed to sell shares in the energy company RWE as well as the Italian and Austrian companies Enel and OMV.

Renewable energies offer a realistic alternative

The funds freed up by such divestments need to be reinvested. Investments in wind or solar parks are long-term alternatives that can demonstrate secure cash flows that are often significantly above the yields offered by A-rated government bonds. Because wind and solar have a minimal correlation to shares and bonds, they provide investors with the recommended diversification of their portfolios. The real value that underpins such investments means that they suffer fluctuations far less than, for example, shares. In short: direct investments in renewable energy represent a fundamentally attractive asset class for institutional investors.

This is the view held by Allianz: in Autumn 2014 the group's investments in wind and solar energy exceeded the two billion Euro mark. These volumes had risen by April 2015 to 2.4 billion Euros – of which 1.8 billion Euros were investments made by Allianz Germany. It would be good if further investors, following the climate summit in Paris, would follow this example.

Yours,
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