



# Going clean: Investing in the global energy transition

April 20, 2021

*As the world moves to a green power paradigm, we look to our analysts to identify winners and losers in the energy transition.*

A monumental shift has begun in the world's energy systems, as older power sources like fossil fuels give way to cleaner, greener and more efficient sources for heat and electricity. The risk of climate change continues to be a looming threat, and energy-related companies are adapting in new and innovative ways.

In 2020, for the first time ever, the U.S. got more of its power from renewable sources than from coal.<sup>1</sup> Technology is advancing the way we store, transport and distribute power through smart grids and new battery capabilities. Innovators are exploring ways to use energy more efficiently through electric vehicles and energy-efficient buildings. The transformation is coming quickly — and it will continue to accelerate as governments, corporations and everyday people look for solutions to mitigate the environmental and economic risks of climate change.

In the markets, big changes like the energy transition are bound to create winners and losers. Some companies will find innovative ways to address these evolving challenges like designing a car battery that charges in a matter of minutes and powers a drive of hundreds of miles. Or a more efficient solar panel that doubles the amount of the sun's energy it can convert to electricity. Other companies will fail to adapt and fall by the wayside. Investors who understand these dynamics will have an advantage in future markets by focusing on energy inventors and reinventors and limiting their exposure to new types of risk.

Many investors know that climate change is driving major opportunities and risks — and they're intrigued by investment strategies that give them exposure to market innovators. But not all of the most exciting opportunities come from start-ups and small-caps. In many areas, the well-funded and well-established players are leading the way.

It's a complex, evolving landscape. So our analysts have created a framework to make sense of investments in the energy transition space — from the impacts on transportation, construction and manufacturing to power producers — identifying key themes that may drive performance.

## ▶ How the energy transition will impact the U.S. electric market

| INITIATIVE                                      | WINNERS  |  | LOSERS                      |                             |
|---|--|--|-----------------------------|-----------------------------|
|   | NEAR-TERM  | LONG-TERM  | NEAR-TERM                   | LONG-TERM                   |
| Switching from coal to gas                      | Select electric utilities with access to low-cost gas  | Select electric utilities with access to low-cost gas  | Coal-fired energy providers | Coal-fired energy providers |
| Building out renewable energy capabilities      | Renewable developers; utilities; copper and steel producers; project developers; turbine manufacturers | Renewable developers; utilities; copper and steel producers; project developers; turbine manufacturers | Non-renewable generators    | Non-renewable generators    |
| Electric grid investment                        | Electric utilities; grid equipment suppliers   | Electric utilities; grid equipment suppliers   |                             |                             |
| Improving battery technology and storage        | Select utility companies; lithium producers  | Select utility companies; lithium producers  | Merchant power generators   | Merchant power generators   |
| Expanding the electric vehicle charging network | Electric utilities   | Electric utilities   |                             | Merchant power generators   |
| Energy-efficient buildings                      | HVAC   | HVAC   |                             |                             |
| Gas/Hydrogen                                    | Gas distribution utilities   | Gas distribution utilities   |                             |                             |

Source: Columbia Threadneedle Investments

The transition to sustainable and renewable energy sources is just one way that the world is changing. Our research-driven investment process can help to identify the companies that are creating opportunity and growth out of this and other pressing challenges. We view environmentally and socially responsible investing not as a separate discipline, but as an essential part of our process for conducting research and delivering investment success to all of our clients.

### Bottom line

The ongoing effort to decarbonize power is expected to create winners and losers in the energy sector, but also in industries like transportation, construction and industrial production. Finding companies that can adapt in a fast moving world — whether they are new entrants or existing players repositioning themselves — will be essential for investors.

### DISCLOSURES:

<sup>1</sup> Source: worldbank.org, November 2020.

Investing involves risk including the risk of loss of principal.



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