SUSTAINABLE TECHNOLOGY INVESTORS LTD

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Sustainable returns from renewable sources: why green technology and energy will reward investors

The UK is in the grip of double-dip recession. The Eurozone crisis seems to deepen with every passing week. The US recovery is fragile and may be faltering. These conditions leave financial advisers and wealth managers with very little room for manoeuvre when it comes to investment ideas – at least those with a reasonable prospect of preserving capital and generating growth.

Yet, attractive investment opportunities do exist. Many of the UK's wealthiest private investors are pouring significant sums of money into one sector in particular - renewable and sustainable energy. A recent survey of family offices and angel investors by law firm Taylor Wessing found that some 40% of those questioned planned to allocate at least 10% of their investable assets into clean energy over the next 18 months. This was a 300% increase on the number that allocated this proportion of their capital to the sector during the previous 18 months.

So what is attracting sophisticated investors to the sector and why now? In many ways the answer is simple – growth. While the broad UK economy has been shrinking over the past six months, figures from the Department for Business, Innovation and Skills (BIS) indicate that the green economy is thriving. Sales in the low carbon and environmental goods and services sector stood at £116.8bn in 2009-10, growth of more than 4.3% on the previous year. The BIS figures suggest a sector in excellent health.

There are sound fundamental reasons for why this is the case. Global demand growth for energy and resources, energy security concerns and the depletion of remaining fossil fuel reserves are driving the move towards sustainable energy and resources. The impetus behind renewable energy, energy efficiency and sustainability – in the UK and globally - is only set to increase as natural resources become scarcer and traditional means of energy generation more expensive.

The way we live, consume resources, and generate power, needs to change or the lights may go out. With the stakes so high, the potential returns from investment in 'game-changing' technologies are extremely attractive. Tamar Energy, which plans to build more than 40 anaerobic digestion energy plants in the UK, has attracted a roll-call of extremely high-profile investors, including Prince Charles's Duchy of Cornwall, Lord Rothschild and Sainsbury's. Its plan to generate 100 megawatts of green electricity within five years should yield an attractive return to investors. Many more projects like Tamar will be needed for the UK to grow its renewable energy capacity, which is one of the many reasons why the potential of the sector is so great.

Investment opportunities are not restricted to the direct generation of power. There are many associated sectors that are poised to benefit from the drive towards greater renewable energy generation and sustainable living.

Although nuclear power is low carbon it presents many unique and potentially very serious environmental challenges, particularly with the radioactive byproducts of its generation. Without the successful decommissioning of 20th century reactors, governments and wider public opinion may not be persuaded to move ahead with new 21st century nuclear plants. Companies which can develop viable and environmentally-friendly solutions for dealing with these radioactive by-products are vital to ensuring the future of the UK nuclear industry. One promising young company, Arvia, has developed a process for the safe disposal at room temperature of radioactive oils created by nuclear power plants - currently a serious bottleneck in decommissioning. Its product offers an alternative to the burning of many toxic industrial waste products - not only nuclear - and fills a global demand gap for environmentally sustainable waste disposal solutions. It offers an attractive investment opportunity for EIS investors.

Companies that innovate by designing effective energy and resource-saving systems may also prosper. Water, until only relatively recently viewed as a plentiful resource, is becoming an increasingly precious commodity. As such we are being encouraged to use less of it where possible and new systems and devices - such as showerheads, taps and washing machines - are being redesigned with this objective in mind. Another UK company, Propelair, is manufacturing a new toilet that uses 80% less water and energy per flush than conventional alternatives. Payback for customers in the form of lower bills will be between two and four years, offering them a strong financial case. As businesses, governments and households seek to cut their water and energy use, technologies such as this will be vital in helping to achieve such goals.

The building materials and construction sector is another area where the drive for sustainability is bringing about real change and the market for environmentally-efficient building products is growing rapidly. Such products can reduce the need for harmful extraction processes required for materials such as stone. Mining can have a highly detrimental impact on the surrounding environment in many different ways, from the appearance of the landscape to the presence of pollutants within it. Companies are finding success by developing sustainably-manufactured materials to replace traditional stone and brick. Serastone, one of the leaders in this field, is producing materials with an environmental impact that is estimated to be 10 to 15 times lower than any equivalent cement, clay or composite resin-based alternatives.

The breadth and depth of the renewable and sustainable investment market is growing on an almost daily basis, but while opportunities are increasing, selecting companies with the best chance of success gets no easier. Often the most attractive returns from the sustainability sector will be found in companies that are yet to fully breakthrough into their markets, but are on the cusp of doing so. Investing in such highly specialised companies requires expert knowledge and highly skilled fund management.

Fund managers should favour companies with proven technologies and long-term revenue and supply deals. Security of revenues and certainty of cash generation offers downside protection which helps provide peace of mind for investors who are not used to investing in unlisted companies.

EISs are likewise a sensible option for the private investor when looking to access this sector because the 30% income tax relief they provide can enhance returns while loss relief at investors' marginal tax rate help contain downside risk.

Though we advocate a cautious approach, we believe skilled fund managers with a sound investment strategy can deliver strong returns to investors through a carefully chosen portfolio of sustainable technology and renewable energy projects.

The sector presents a compelling investment opportunity – arguably the opportunity of the decade.

Jim Totty has 19 years' experience in sustainable technologies and 11 years experience in private equity fund management.

About Sustainable Technology Investors Ltd (STIL)

Sustainable Technology Investors Ltd (STIL) is a fund management business founded by Gordon Power and Stephen Lansdown in 2009 to provide capital for and mentoring to fund managers and businesses located in Europe, Asia, the Americas and Africa whose primary focus is renewable energy and sustainable technology.

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