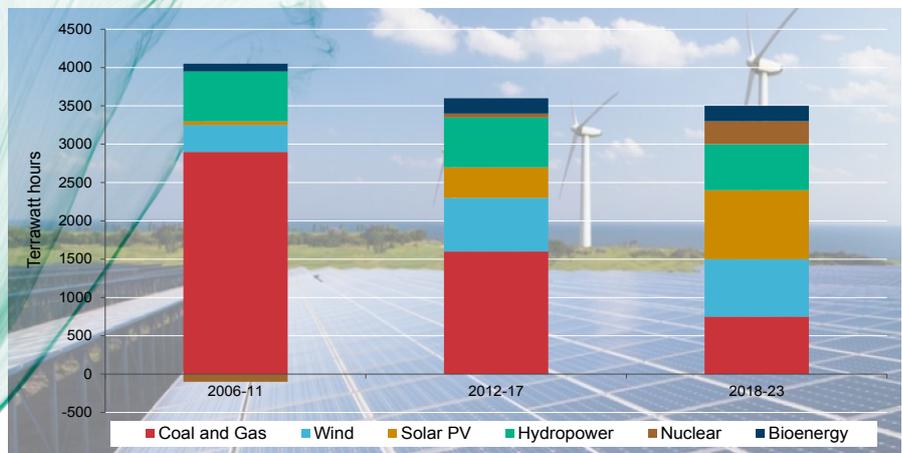


Offshore wind: powering up renewable energy projects

Renewable energy has become a key piece in the sustainable jigsaw over the last decade, driven by technological and value chain improvements, as well as global initiatives towards a cleaner, lower-carbon environment.

The following chart illustrates global power generation growth by technology. What is interesting is that coal and gas accounted for well over half of all power generation just ten years ago compared to a projection of barely one quarter for 2018-23.

Global power generation growth by technology



Source: International Energy Agency, Bloomberg, Heartwood

Wind energy technology in particular has made exponential gains in efficiency in recent years, enough to achieve economic competitiveness and, in an increasing number of cases, grid parity – that is, at the same cost, without needing subsidies, as conventional energy sources.

So far, actual delivery of renewable energy generation capacity has varied widely from country to country within Europe. Some countries, for example those in Scandinavia, the Baltic States and Austria, have already achieved high levels of renewables penetration, whereas others, including a number of the more heavily populated countries such as the UK, France, Germany and the Benelux region, have further progress to make in expanding renewables towards their 2020 targets.

In the UK, the national target under the Renewable Energy Directive is for 15% of gross final energy consumption to come from renewable sources by 2020. This target is unlikely to be met, since the UK currently generates a relatively low proportion of energy from renewable sources.

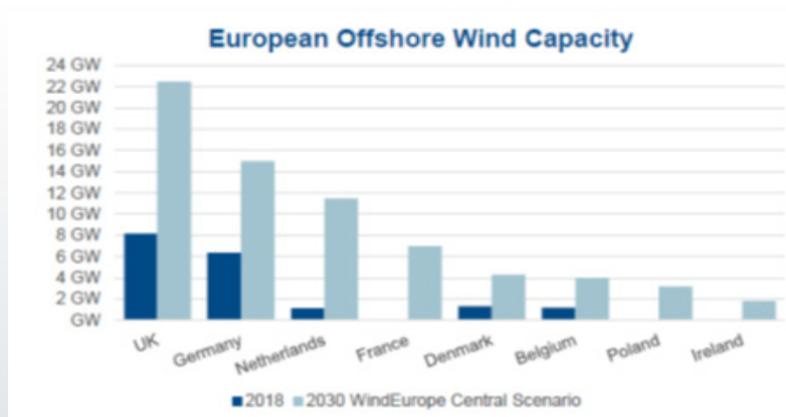
However, in March 2019, the UK government announced a major commitment to renewable energy development, with a pledge to generate 30% of electricity from offshore wind by 2030, increasing to 50% by 2050. The joint government-industry offshore wind sector deal includes a £40 billion infrastructure investment. It will mean that for the first time in UK history there will be more electricity from renewables than fossil fuels, with 70% of UK electricity predicted to be from low-carbon sources by 2030. This will place the UK at the forefront of offshore wind technology in Europe.



Contact

To find out more about the Heartwood strategies, visit our website or contact your local representative.

Offshore wind capacity in Europe



Source: Wind Europe

The offshore wind industry has matured significantly to the point where the risks are viewed as comparable with onshore wind. It is still a small proportion of wind-generated energy globally, but is expected to capture more market share due to its rapidly declining cost curve. According to a study released by Global Industry Analysis (November 2018), offshore wind capacity is forecast to grow by over 80 gigawatts to the end of 2024, achieving a compound annual growth rate of more than 25% in that period.

More governments are adopting offshore wind technology policies, where geographically and economically feasible, and offshore wind farms are gaining in popularity as larger resource areas with low environmental impact.

On our portfolios, we have exposure to offshore wind technology through our holding in The Renewables Infrastructure Group (TRIG). TRIG is a renewable energy infrastructure fund which invests in onshore wind and solar photovoltaic projects and increasingly in offshore wind projects. The portfolio is highly diversified and produces a stable long-term revenue stream that is linked to inflation. The main credit exposure is to national governments (via subsidies) and major utilities. These factors underpin a dividend yield of c.6%. This provides stable cashflows uncorrelated with the wider equity market.

We have been invested in TRIG since March 2017 and in March 2019, we increased our holding by participating in an oversubscribed £302m capital raise.

We believe we are at the dawn of a new era for renewable energy, which has broad public and political support and is an increasingly dominant force in energy generation projects worldwide.

Benjamin Matthews
Manager, Sustainable Strategies

Important Information

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