

Fueling a new climate response

Commitment to sustainability has been tested this year against a backdrop of war, economic slowdown, and surging energy prices. Despite the difficulties, we believe these problems will ultimately serve to accelerate the energy transition and prompt investors to double down on opportunities for sustainable investing.

Matt Christensen

Global Head of Sustainable and Impact Investing

2022 has been an extraordinary year for climate with events prompting divergent near-term pressures. The “now or never” warning on climate by IPCC in April was followed by another summer of extreme weather events. The rising frequency and severity of these events was evident with the worst drought in Europe for centuries, major floods in Pakistan, and record-high temperatures in Europe and India. As well as causing huge suffering, there’s growing recognition of the major financial and economic risks from these extreme weather events.

Yet, at the same time, energy transition has had to take a back seat to energy security and affordability due to the war in Ukraine. Policymakers are reacting in different ways to Russia cutting back energy supplies to Europe including importing liquified natural gas (which has twice the environmental impact of natural gas), recommissioning coal-fired power plants, and resuming fossil-fuel exploration and production.

We believe this will be a short-term setback and the formal recognition of a deficient existing energy mix can fuel a J-curve response in 2023. This will lead to accelerated development of renewable programmes and the required technologies, where investors can both invest in and capitalise on these opportunities.

Determining the future energy mix

The problems with our current energy mix have been exposed and governments need to align on the future energy mix and collaborate on effective transition. Industry body models vary significantly, but some future energy trends are clear:

- Fossil fuels’ share of the mix needs to fall from around 80% today to 20-30%

- Renewable energy needs to increase from a 15% share to 60-80%
- Most models envisage the share of nuclear remaining significant, with some suggesting it needs to increase from around 5% to at least 10%.

Fossil fuels’ declining role requires the phasing-out of coal and oil consumption falling by up to 80%. Solar and wind power would need to rise by 20x and 10x respectively from 2020 levels and would need to be supported by expansions in hydrogen, bioenergy and carbon, capture, utilisation and storage (CCUS).

Identifying clean energy transition frontrunners and beneficiaries

There has been a sustained shortfall in energy infrastructure investment in recent decades, especially in Europe. The IRENA World Energy Transitions Outlook 2022 report estimates annual investment needs of USD 5.7 trillion through to 2030.

From an investment perspective, the projected increase in clean energy spending could create interesting possibilities in the growth potential of both enablers and beneficiaries of energy transition. Investing in solutions that address energy consumption patterns and evolving demand dynamics are just two of several pathways to support energy transition.

We look to identify, measure and invest in companies globally providing solutions through the whole value chain – including clean energy generation, efficient energy storage and sustainable energy consumption – aiming to contribute to the environmental and social objectives of the UN Sustainable Development Goals (SDGs).

Some of these opportunities may be in their infancy and seeking investment to help achieve scalability. These could include innovative technologies like hydrogen-based energy supply, new forms of energy storage, and emissions-reducing innovations.

The need to engage

Engaging with company management is critical to fully understanding a firm’s climate positioning, measures and goals, especially for those at an early stage of transition. Company activities must also be judged within the context of the countries in which they operate – as such, collective engagement through industry body participation could potentially allow for effective promotion of transition across multiple stakeholders.

“Solar and wind power would need to rise by 20x and 10x respectively from 2020 levels and would need to be supported by expansions in hydrogen, bioenergy and carbon, capture, utilisation and storage (CCUS)”

We have a longstanding commitment to stewardship in invested companies. Discussions on environmental topics, including climate change, accounted for over 20% of our engagement activities in 2021, and this proportion is expected to increase.

A key priority for us is that company disclosures and data align with “real” net-zero progression. In other words, we want to see evidence of commitments and actions to a genuine decarbonisation or carbon profile aligned with 1.5 degrees. Building on our own net-zero goals¹ – and those of our parent, Allianz² – we have enhanced our proprietary approach to this and how engagement complements it.

A tailwind for the energy transition

We are aware of the backlash against ESG in some quarters, and how

geopolitical and economic factors have taken precedence over climate action in recent months. However, we believe a combination of focusing on quality measures, and the very real risk materiality of failing to meet net zero, will develop into a heightened focus and tailwind for energy transition. What’s more, the events of this year have reinforced climate transition’s interplay with biodiversity and just transition. A more exacting approach to measuring sustainability will drive towards targeted and positive impact outcomes.

In short, sustainability faced its first real test in 2022 and enters 2023 bruised but better positioned to potentially achieve credible transition. The needs for solutions across all threads of sustainability have never been felt more keenly, and we will engage and collaborate with clients to help shape the pathways and transition towards a better future.

Related reading

Energy transition and energy security – complementary or conflicting?

<https://www.allianzgi.com/en/insights/outlook-and-commentary/energy-transition-energy-security>

Switching the energy transition to sustainable gears

<https://www.allianzgi.com/en/insights/outlook-and-commentary/energy-transition-to-sustainable-gears>

FOOTNOTES

1 <https://www.netzeroassetmanagers.org/>

2 <https://www.allianz.co.uk/about-allianz/environmental-responsibility/net-zero-asset-owner-alliance.html>

Allianz 
Global Investors

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted. This material has not been reviewed by any regulatory authorities. In mainland China, it is for Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations and is for information purpose only. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. This communication’s sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of this document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances does not arise from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited (“AllianzGI AP”) and is intended for the use of investment consultants and other institutional/professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order [CO 03/1103] with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws. This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors U.S. LLC, an investment adviser registered with the U.S. Securities and Exchange Commission; Allianz Global Investors Distributors LLC, distributor registered with FINRA, is affiliated with Allianz Global Investors U.S. LLC; Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; in HK, by Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; in Singapore, by Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; in Japan, by Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424], Member of Japan Investment Advisers Association, the Investment Trust Association, Japan and Type II Financial Instruments Firms Association; in Taiwan, by Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan; and in Indonesia, by PT. Allianz Global Investors Asset Management Indonesia licensed by Indonesia Financial Services Authority (OJK). 2522015