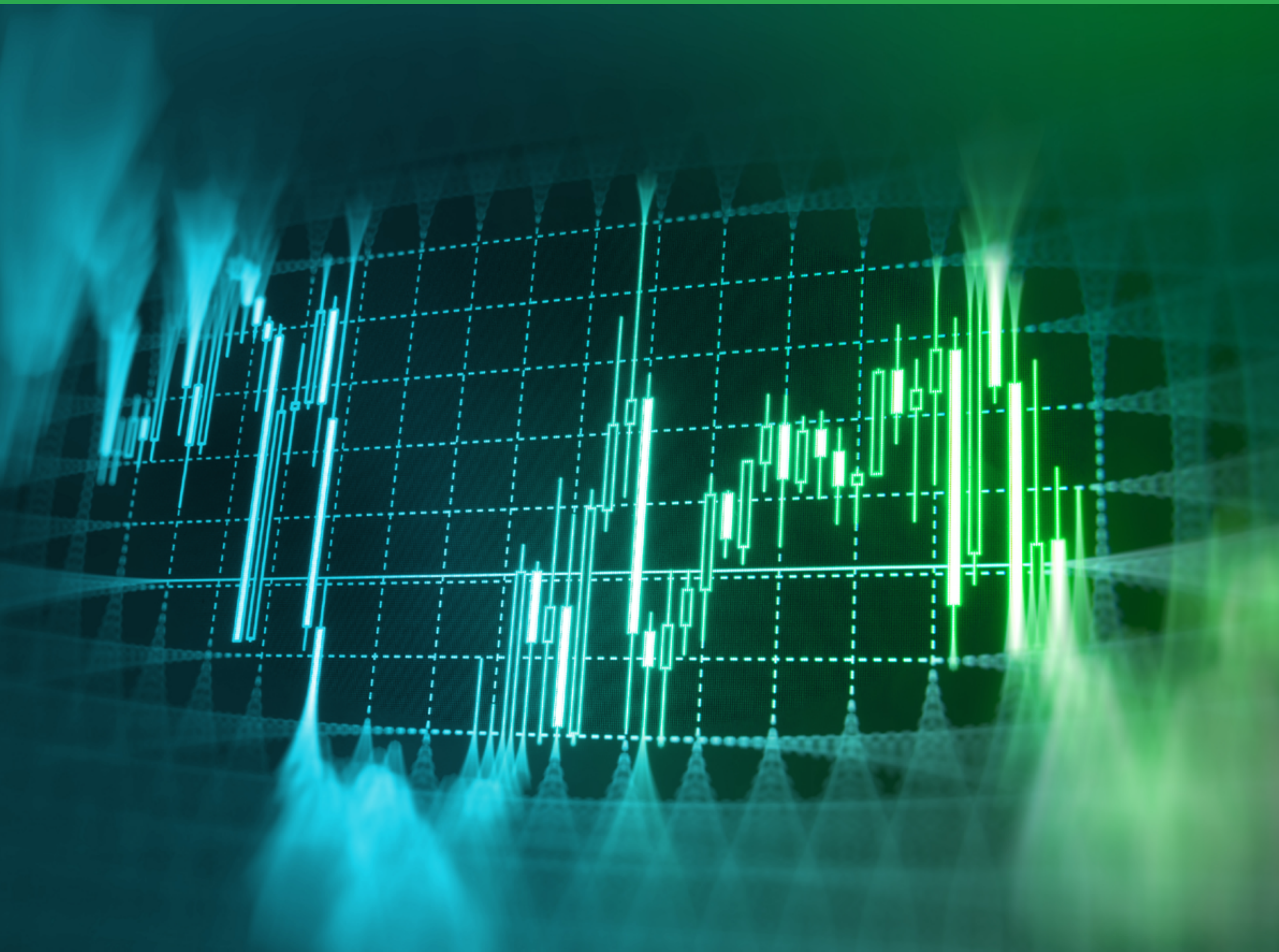
BEYOND OIL

The ONE renewable investment to avoid at all cost



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You've probably seen *The Great Gatsby*, or read the original novel. If a parent didn't force it down you when you were young, then school probably did.

One of the main images is of Jay Gatsby, the mysterious millionaire, standing on his jetty looking out across the bay at the glowing green light on the other side.

He holds a deep attraction to that glowing green bulb. As F. Scott Fitzgerald wrote,

> *Gatsby believed in the green light, the orgastic future that year by year recedes before us. It eluded us then, but that's no matter--tomorrow we will run faster, stretch out our arms farther…*

Investors today can empathise with the allure of the green light. It promises a future where profits are made, and planets saved.

However, for Gatsby, the promise he saw in his green light led to chaos, death and despair.

And investors should beware not to fall into the same trap.

The opportunity for investors in this space is huge, of course. Our Beyond Oil summit has hopefully convinced you that the future for renewables and for green stocks could hardly look any brighter.

And, make no mistake, many renewable stocks have already been making great strides. By way of example, just look at these two green stocks that form part of what we might call the "Cleantech first wave":

Vestas Wind Systems is up over 2,000% since 2012.

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And SolarEdge Technologies is up over 1,200% since 2017:

Looking at that, you're probably itching to get involved and make what might just be your first renewables investment, especially as these returns are set to be repeated in the current second wave of cleantech investments.

But while it's undoubtedly a great time to be getting ahead of the curve on green investing, I must stress that **there is no high-reward, no-risk, everyone-wins investment strategy.**

That's why I'd like to look at a couple of pitfalls to avoid.

Staying ahead of the crowd

As I showed above, some renewables stocks or subsectors have seen very strong returns over the last decade, in general, and over the last couple of years, in particular.

Right now, there is so much to discover and learn about all the amazing things that entrepreneurs and companies across the globe are doing to slow, halt or reverse climate change.

Although I fully anticipate a sustained and strong run for many of the best renewable stocks, as excitement builds, inevitably more risk-positive and less selective investors will flood into the market.

Like sharks smelling blood in the water, day traders, algos, momentum investors, dumb money – whatever you want to label them – will all enter the market in the hunt for profits. Opportunists will come.

That makes it even *more* imperative to tread carefully, have a clear strategy, solid targets and selling signals that you adhere to. After all, clean energy is a market and your investments can still go down as well as up.

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In short: stay selective, keep a cool focus in the company's performance, don't get carried away and don't be scared to take profits if and when you feel investors have gotten carried away.

Beware: not all green funds are green

One example of slightly inconsistent investor behaviour can be seen in the many green environmental, social and governance (ESG) funds.

While ESG funds are becoming increasingly mainstream – with figures from the Global Sustainable Investment Alliance showing global assets topped $30 trillon in 2018 – there is no standard definition of what ESG means when it comes to picking companies' stocks.

Some strategies exclude entire sectors, such as oil and gas, while others track indices that aim to include companies from each sector that are doing the most to further ESG principles.

It's certainly very easy for retail investors, thinking they are buying one thing when they are actually buying another, to be easily confused and misled.

This combination of growing mass-market appeal and non-standardised benchmarks is a potentially toxic mix. In fact, many a fund manager has been able to launch a "sustainable" or "ESG" fund into the market unchecked.

According to research by 2degrees, 85% of funds labelled "green" have "misleading" marketing. Moreover, data from Morningstar suggests that of 2,405 "sustainable" funds in Europe, just 160 – or 6.7% – explicitly state, by prospectus, that they either screen out or reduce exposure to fossil fuels beyond coal.

For example, a popular $500 million "green" fund run by Vanguard that claims to "specifically exclude" fossil fuel stocks was found to invest in a host of companies in the oil and gas industry last year.

According to its website, Vanguard's ESG US Stock ETF "specifically excludes stocks of companies in the following industries: adult entertainment, alcohol and tobacco, weapons, fossil fuels, gambling, and nuclear power".

But as of 31 May 2019, 1.4% of the fund's assets were invested in oil and gas companies, including oil services company Schlumberger, pipeline company Kinder Morgan and crude oil refiner Marathon Petroleum.

This is a common story.

Vontobel's $4 billion Sustainable Emerging Markets Leaders fund has Russian oil company Lukoil as a top-ten holding, while oil also appears not only in Robeco's Sustainable Global Stars fund but also Neuberger Berman Emerging Markets Sustainable Equity fund and PGIM's QMA Global Core Equity ESG fund, for example.

Green funds and investment trusts often have a distinctly brown note. They tend to avoid

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the cleanest, greenest companies – usually based on volatility or market capitalisation limits.

As a result, you see some of the main renewable companies such as Vestas a lot. Then you see a lot of companies that are greening to a certain extent – such as Siemens, National Grid and Orsted (formerly Danish Oil and Natural Gas). Or the funds invest in waste management, water resources… that kind of thing.

But that's hardly a green portfolio.

Not when there are a multitude of pure-play green stocks out there.

Just in the solar sector you have so many options: decentralised providers (home solar panel solutions), solar power plant builders, owners, operators, panel manufacturers, component suppliers, solar asset managers, mobile solar solutions, solar R&D companies… and more.

Then there's on and offshore wind power, biomass, geothermal, hydro, tidal, everything on the burgeoning hydrogen supply chain, energy storage and batteries, green utilities, and so much more.

And they have been massively outperforming traditional energy benchmarks (from the fossil fuel sector) and national indices too.

So just remember than not all that glitters is green, no matter what it calls its fund or ETF.

Look at the contents and ask yourself if you could do better yourself.

In my opinion, all the smaller, pure-play, fully green stocks have far greater potential than any established blue-chip stock that is slowly shifting towards renewables and sustainability.

For example, utilities that use renewables have performed much better on the stockmarkets than those which stuck with coal and gas. Orsted has done more than most oil majors and has outperformed the lot of them.

So be careful, don't just read the label – make sure you look at the ingredients too.

For example, let's look at the Jupiter Green Investment Trust.

According to Morningstar, it doesn't have a single percentage of its fund in energy.

It invests in utilities including NextEra and Vestas, two of the very largest renewable energy companies on the stockmarket – hardly adding much value to a one-stop Google search there.

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Stock Sector Weightings % 29/02/2020

	Fund	Category
Cyclical	**16.82**	**22.31**
Basic Materials	5.82	10.25
Consumer Cyclical	8.18	6.09
Financial Services	-	2.47
Real Estate	2.83	3.51
Sensitive	**65.09**	**57.01**
Communication Services	-	1.01
Energy	-	0.29
Industrials	55.32	35.92
Technology	9.77	19.79
Defensive	**18.09**	**20.67**
Consumer Defensive	4.38	3.83
Healthcare	0.05	6.72
Utilities	13.66	10.13

Source: Morningstar

But I suppose it could be worse. It could be my number one "green" investment to avoid: **BlackRock's iShares MSCI USA ESG Screened UCITS ETF**.

Basically, this ETF is a tracking index of the American stockmarket (it essentially matches the S&P 500), but the idea is that it has screened the companies for their green and socially progressive credentials, and cut out the bad ones.

As a result, it's just another slight variation on what every investment vehicle now tries to be – a discrete tech tracker. The ETFs top five holdings are Facebook, Apple, Amazon, Microsoft and Alphabet (Google). Together they make up a fifth – 20% – of the entire portfolio.

It proudly states that it has no share in any business involvement in cluster munitions or landmines, and biological and nuclear weapons. Thank goodness Blackrock is here to save the world, one ETF at a time! But that's about as far as its ESG credentials go. E stands for Environmental, remember?

How then, has it ended up with Exxon, Chevron, Kinder Morgan, ConocoPhillips, Schlumberger, EOG Resources and more all as part of its holdings?

Indeed, Exxon and Chevron are even in its top 30 holdings (out of a few hundred).

It's essentially just another vehicle for piling into the FAANG stocks, with the added bones of a bogus ESG label. This is "greenwashing" taken to its extreme. So that's why BlackRock's iShares MSCI USA ESG Screened UCITS ETF is my one renewable investment to avoid at all costs.

Remember, next time you see an ESG fund or a screened ETF, think of BlackRock and its iShares fund, and make sure you delve into the full list of holdings to make sure you're not being duped.

As always, when investing in individual stocks, be selective, and do your research.

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There's no such thing as a free lunch.

All the best from me,

James Allen
Editor, *Exponential Energy Fortunes*