Private renewable investments can offer appealing and diversifying returns tied to enduring trends like AI and the low-carbon transition. (UBS)

How private infrastructure assets can help diversify portfolios

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Renewable energy investments in listed stock markets have faced challenges from high borrowing costs and inflation pressures. But unlisted investments in renewable energy infrastructure look increasingly appealing for investors.

We like their potential to offer diversifying returns uncorrelated to other asset classes and inflation-linked cashflows that can help build long-term wealth. Investors should be aware of the unique risks of private markets, including illiquidity and long investment horizons.

Recent challenges have weighed on renewable energy investment.

- Concerns about higher-for-longer rates and cost pressures hurt public equity strategies in renewable energy.
- The MSCI Alternative Energy Index has fallen 32% over the five quarters to end March 2024, compared to an 8.2% climb in the MSCI World Energy index.

But large investment gaps, corporate investment, and government policy are turning more supportive.

- The Global Infrastructure Hub expects the world's infrastructure investment gap will widen to USD 15tr by 2040, presenting considerable untapped opportunity.
- Global annual renewables capacity additions increased by almost 50% in 2023, the fastest growth rate in two decades according to the International Energy Agency.
- Government policies like the Inflation Reduction Act in the US and the European Green Deal provide a favorable landscape for private investments in renewables, in our view.

So, private infrastructure can augment and diversify returns in long-term portfolios.

- Renewable power asset returns could range between 8% and 13%, based on GSAM data.
- More broadly, infrastructure assets can help diversify portfolios, with correlations of between –0.2 and 0.6 to other asset classes between 2005 and 2022, according to Cambridge Infrastructure Index data.

Did you know?

- The International Energy Agency (IEA) estimates that achieving net-zero objectives by 2050 will need roughly USD 2.6tr of annual investments in green infrastructure.
- Digitalization and the growth of AI can underpin renewable energy demand. The IEA estimates that global energy consumption of AI and data-centers could exceed 1,000 TWh by 2026 - about the same amount of energy that Japan consumes today.

Investment view

We believe private infrastructure investments in renewables can help diversify portfolios due to their low correlation to other asset classes and provision of alternative, stable income streams that are often tied to inflation. This approach may also help investors achieve their sustainability and impact goals. However, investors should consider the risks inherent to private markets before investing, including illiquidity, long lockup periods, leverage, and over-concentration.

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