Trends with Investment in Cleantech and Clean Energy

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Perspectives on sustainability have changed, and there's now an observable demand for more sustainable practices in our daily personal and corporate lives. Sustainability initiatives are here to stay, and they're impacting the financial support that many are putting behind companies solving the world's most pressing environmental sustainability issues—whether that's advancing clean energy technologies, innovations supporting sustainable oceans, or solutions to water crises. Noticing a shift in public perception, governmental support, and industry trends, organizations are now investing more time, money, and effort than ever in cleantech and clean energy.

Trends with Venture Capital

2020 featured a plethora of headlines about venture capital (VC) firms raising capital in new funds, with a heavy focus on both investing in cleantech and VC funds being deployed in support of clean-, climate-, and sustainable-tech companies.

The Engine is a venture firm established by the Massachusetts Institute of Technology (MIT) that invests in early stage Tough Tech companies, and has invested in 27 companies solving global issues like climate change. The firm recently announced that it raised $230M toward its Fund II—combined with its Fund I, this new funding brings the capital commitments of the funds to $435M.

In January 2021, Breakthrough Energy Ventures (BEV), the cleantech VC fund led by Bill Gates, raised $1B for a second round of investment after having backed 45 startups with its first $1B fund. The aim of this fund is to support some of the trickier green technologies in development, including climate-friendlier steel and cement production, long-haul transportation, and technologies for capturing carbon from the air. The Prime Impact Fund closed on a $50M cleantech focused fund in mid-2020. Compared to BEV (who may be considered a later-stage fund), Prime Impact Fund is an early stage VC fund focused on breakthrough cleantech.

These specific investment activities represent a relatively small portion of the VC activity, but are reflective of the significant boost in cleantech and clean energy-focused VC fundraising. According to PricewaterhouseCoopers' (PwC) *2020 State of Climate-Tech* report, VC investments to cleantech grew nearly five-times faster than the broader VC industry over a seven-year stretch up to 2019. Greentown Labs, the largest cleantech startup incubator in North America, just acknowledged a big milestone with early stage investment. As of late February 2021, Greentown Labs startups have now raised a combined $1B.

Large Institutional Investors

Large investment firms like Fidelity and BlackRock are committing more strategic investment focus to environmental, social, and corporate governance (ESG) issues.

These companies have thematic funds that are dedicated to investing in sustainability and environmentally focused matters—further accommodating new organizations that want to invest in clean energy.

A thematic fund picks companies united by an idea. ESG thematic funds don't exclusively look at maximizing the return on investment (ROI), and instead look at the broader effects and outcomes of the company's initiatives and if they align with the objectives of the funds. This is also an example of impact investing, where the investment firm looks at the overall impact that the fund is going to have instead of solely looking at it from a monetary return standpoint.

For example, Fidelity has defined its thematic funds into categories such as Disruption, Megatrends, and ESG. Within ESG, there are funds focused on alternative and renewable energy, energy efficiency, pollution control, water infrastructure, water sustainability and waste and recycling technologies.

Also, BlackRock has a whole set of thematic funds that offer investors a way to tap into global trends, including sustainability and clean energy. BlackRock now has a specific fund that encourages investors to support companies who work in cleantech and clean energy.

At the beginning of 2020, BlackRock laid a series of steps to make sustainability a key component of its investment approach. The firm solicited input from investors and received feedback from 425 investors in 27 countries representing an estimated U.S. $25 trillion in assets under management. Respondents shared that:

- Sustainability is here to stay
- Investors plan to double their sustainable assets under management in the next five years
- 88% of global respondents ranked environment as their highest priority

As more people invest in ESG, there's going to be more money to deploy to companies focusing on their own ESG priorities and solving ESG issues. Theoretically, a portion of these funds would become available to early stage companies that are solving the world's most critical climate and clean energy issues like renewable energy advancements, grid resiliency, and energy storage.

Policies of a New Administration

The Biden Administration has made their intentions clear to support initiatives that move away from fossil fuels and cut greenhouse gas emissions. The new Administration has committed to making the largest investment in the history of American innovation to unlock and deploy new zero-carbon technologies. Only time will tell us what programs will be supported, rolled out, and funded, but this perspective is great news for entrepreneurs and start-ups with solutions to energy and environmental issues. We expect anything that creates more cost-effective and scalable ways to meet America's energy needs to be supported by this Administration, and in turn, investors. These initiatives include:

- Advancing renewable energy sources (such as those around wind and solar)
- Building out the grid and overall utilities infrastructures to connect with new sources of renewable energy
- Connecting the grid and transportation network to support electric vehicles
- Creating more effective batteries for energy storage
- Stabilizing the grid

President Biden's climate and environmental justice proposal will make a federal investment of $1.7T over the next 10 years, leveraging additional private sector and state and local investments to total more than $5T.

The Department of Energy (DOE) supports a number of new grant, loan, and financing programs to aid cleantech and clean energy companies in their fundraising efforts. These programs include:

There's also significant speculation that this Administration could pursue carbon taxes with the same strategy the previous Administration used for steel and aluminum. A carbon tax could encourage organizations to focus on more green solutions to lessen their tax burden, and the revenue from the tax would (hopefully) go towards clean energy projects and climate adaptation investments. According to S&P Global, the European Union is also expected to propose carbon border taxes, so the U.S. wouldn't be the first in the world economy try this.

The theory for carbon border taxes is putting an adjustment on imports from nations that don't have an equivalent price on carbon. In many ways, the adjustment would protect American businesses from unfair competition from other nations that aren't prioritizing pricing policies of their own.

Reduced Cost of Renewable Energy

14 years ago, the average cost of a rooftop solar panel was about $3.50 per watt. Today, installation costs are as low as $0.40, with the Asia Europe Clean Energy Advisory (AECEA) predicting further solar component price falls next quarter in addition to the 10% retreat in module costs seen in 2020 so far. This represents a massive drop in the price of solar panels since 2006. Analysts predict that prices could fall below $0.20 per watt by 2040.

The cost of renewable energy is declining to consumers and therefore creating a bigger market for consumers and businesses to spend on renewable energy products and services. As with any growing market, it's likely that investors will seek, more so now than ever, investment opportunities in consumer facing cleantech and energy solutions that previously went unnoticed.

Conclusion

As evidenced by the activities of VC firms, the globe's largest investment firms, and government agencies, the world economy is shifting to encourage more sustainable initiatives. Recent trends have shown that investor support for cleantech and clean energy projects will continue to increase, and early stage companies should be optimistic about these opportunities for fundraising to support their climate and sustainability objectives.