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Green energy on a roll, but experts warn of bubbles:

- Wind, solar energy currently the most viable investments
- Some green strategies unlikely to ever make money
- Subsidies have skewed markets, distorted prices
- Green tech has seen bubbles, may see more

GENEVA, September 17th (Reuters) - Investors betting on renewable or clean energy and related green themes are looking for healthy and sustainable returns, but the road is full of pitfalls for the unwary, investment managers warned on Thursday.

Attendees at the **Jetfin Green 2009 alternative investment conference** in Geneva heard that some alternative energy sources are now in a position to compete with more established sources, even in the absence of government subsidies.

"Renewable energy technologies are at a point where they are cost competitive with the grid, Copenhagen aside,"

— **Walther Lovato**, a Portfolio manager at California-based asset manager **Passport Capital**.

He was referring to a summit to be held in Copenhagen in December, when world leaders will attempt to agree a new global climate treaty to replace the Kyoto Protocol that expires in 2012, potentially leading to more subsidies for green energy.

At present government expenditure and subsidies is already a significant driver of the alternative energy industry.

"Some \$500 billion has been focused on alternative energy... with a growing emphasis on energy efficiency,"

— **Sandy Christie** of **BlackRock Investment Management, UK**.

The focus on efficiency was not always there. As recently as 2008 the U.S. Congress voted to continue levying tariffs on imported ethanol and subsidising domestic ethanol production from corn, in spite of data showing that production was more expensive and the fuel less efficient than sugar-based ethanol.

But ever since it became clear that subsidies could not create a profitable business, U.S producers such as Pacific Ethanol <PEIX.O> have been shunned by investors.

Indeed most investors said they now avoid companies which rely on government support and warned that investors can get burned when subsidies distort views of a company's viability.

For example, solar industry experts blamed Spanish subsidies of photovoltaic cells for pushing up prices. The solar industry increased production to meet demand, but when the subsidies were withdrawn, demand for the cells fell and prices collapsed.

With prices continuing to weaken, shares at even large and profitable solar companies such as Suntech Power <STP.N> and First Solar <FSLR.O> have underperformed the broader market.

Some Froth

Fund managers warned that bubbles tended to develop when investment themes begin to gather speed, and green investing was no exception.

"We saw an ethanol bubble and a biofuels bubble a few years ago and we've just seen a solar bubble,"
— **Roland Pfeuti, Head of Private Equity at SAM, owned by Dutch Asset manager Robeco.**

Fund managers said these bubbles were fuelled by "hot" money, when speculative investors piled into popular investment themes in the hope of making a quick profits, but sell out quickly when these fail to materialise.

Even so, the financial crisis has killed off many of the weaker companies, with only the financially viable and those able to raise cash in challenging market conditions surviving, and many are now poised for profitability, said one conference attendee.

Christie was one of many managers who favoured wind energy, which he described as "cost competitive and scalable", and solar energy where module production costs and prices had come down to viable levels.

Fund of funds managers and other end investors said they had increased or intended to increase their allocations to financially viable green themes, which were no longer a marginal asset class.

"The trend towards green investing is completely irreversible, we call it the new mainstream."
— **Tim Mockett, Managing director of the property team at UK-based Climate Change Capital.**

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