Alternate energy lures pension funds as oil soars

05.22.08, 7:21 PM ET
UNITED STATES - By Muralikumar Anantharaman

BOSTON, (Reuters) - Record oil prices are drawing money from U.S. pension funds into an array of alternative energy investments, stoking concerns of a possible bubble.

The exposure of pension funds and other institutional investors to alternative energy projects is small but growing with investments in geothermal to hydro, wind, solar, biomass, tidal energy and landfill gas.

According to the National Venture Capital Association (NVCA), the so-called 'CleanTech' sector boasts the highest growth in venture capital investments in the last five years.

High oil prices could accelerate the trend.

"Not only us, but also other pension funds are looking at alternate energy sources. Obviously, it's driven by the cost of oil," said **Stanley** (nyse: SXE - news - people) Mavromates, chief investment officer of Massachusetts' $53 billion pension fund, which has less than $530 million invested now in alternative energy.

U.S. crude oil hit $135.09 a barrel on Thursday, rallying more than a third since the start of 2008 on worries of tight stocks in the near term and mounting long-term, global demand. Oil prices pulled back to $130.81 as traders booked profits.

CalPERS, the biggest U.S. pension fund with $240 billion in assets, has committed about $1 billion to alternative energy, and its spokesman said that amount would increase.

"Research has been lacking for alternative energy because we've had cheap oil for so long that there hasn't been incentives to really develop it. But now it's coming on big time," said Clark McKinley, CalPERS' information officer.

The appeal for alternative energy is simple economics.

David Fann, president and CEO of Pacific Corporate Group Asset Management, which is investing about $1 billion in alternative energy ventures, said the sector turned economically attractive when oil topped the $50-$60 level.

"Until the last three to four years, alternative energy was just not an economically viable investment opportunity," said Fann, whose California firm counts CalPERS as a client. "At $130 a barrel, the economic equation is far different today."

Many funds have yet to yield returns from alternative energy, reflecting long gestation periods of the investments. But that has not stopped the money from flowing in.

'CleanTech' investments by U.S. venture firms hit a record $2.6 billion from 168 deals in the first nine months of 2007, exceeding the $1.8 billion from 180 deals in all of 2006, according to data from NVCA and Thomson-Reuters.

Those figures prompted NVCA president Mark Heesen to caution in November that "investing in new technologies can be fraught with pitfalls" and that "short-term 'tourists' should steer clear."

Bill Wiberg, a general partner at Silicon Valley-based venture capital firm Advanced Technology Ventures, said some investors might worry if venture capitalists rushed into alternative energy that they were "making mistakes that were reminiscent of the bubble in tech."

But others did not see a bubble in the making.

"This is the first innings of the first game of a 162-game season of a century-long game we're likely to play," said Ira Ehrenpreis, a venture capitalist at Technology Partners, comparing the investment to a baseball season.

"It's a huge opportunity." (Additional reporting by Anupreeta Das in New York. Editing by Jason Szep, Leslie Gevirtz)