Finance

Why Getting Rich as a Solar Investor Is Still Super Risky

Active Solar was one of last year's best-performing funds, with returns of 183%. But success with an all-solar strategy comes at a cost.

By Lucca De Paoli and Will Mathis
25 janvier 2021, 10:00 UTC+1

First Solar panel installation in California. The company is among those in Active Solar's $290 million portfolio. *Photographer: Sam Hodgson/Bloomberg*

In this article

968
XINYI SOLAR HLDS
18.88 HKD
▼ -0.18 -0.94%

3470094Z
BLOOMBERGNEF
Private Company

After twice losing most of his investors' money, things finally went according to Pascal Rochat's singular plan. His fund, Active Solar, posted a 183% return in 2020 to make him the best-performing stock-picker in Europe. To reach these heights, the Swiss money manager changed nothing about his

FSLR
FIRST SOLAR INC
104.94 USD
▼ -1.73 -1.62%

8011Z
LEHMAN BROTHERS INC
Private Company

XW1
Generic 1st 'XW' Future
84.50 USD/MT
▲ +0.05 +0.06%

approach. He simply bet everything he had on solar power.

Among the companies in Active Solar's $290 million portfolio are U.S. firm First Solar Inc. and Xinyi Solar Holdings Ltd., a Chinese specialist glass manufacturer for panels. The strategy has been same since the fund opened in 2008, and Rochat remains optimistic about his unwavering investment thesis. "The 21st century will stay in the history books as a century where economies got decarbonized," he said from his office in Lausanne, Switzerland. "It looks quite clearly now that solar is a big winner of this, if not the biggest winner."

There was a lot of getting it wrong before Rochat got it right. In his 12-year run as a professional money manager he endured several dramatic busts that almost wiped out solar investors. His fund has suffered multiple single-day losses that reached double figures and had to navigate a wave of bankruptcies that swamped the industry. At times Rochat couldn't afford to pay himself a wage.

> ***"You can call it visionary. You can call it lucky. You know, nobody knows"***

Then last year brought a sustained solar surge that didn't let up while the pandemic destroyed demand for fossil fuel. There was a record 137 gigawatts of new solar installed in 2020, according to BloombergNEF, and this year's total should be even higher.

This solar triumph always seemed inevitable to Rochat, even if he arrived about a decade too early for consistent profits. "When you've got a free fuel that is so well spread on the Earth, especially where most people live, it seems kind of obvious to me that at a point cost would go down so much that it would be extremely competitive," he said. "You can call it visionary. You can call it lucky. You know, nobody knows."

Pascal Rochat *Photographer: Stefan Wermuth/Bloomberg*

More from

Musk's Finance Chief Quietly Tallies Profit Surge at Tesla

The idea for going all-in on solar first struck Rochat in 2007, on a vacation from his job as the chief risk officer for the Swiss utility Energie Ouest Suisse. He was on the

Tesla, BMW Approved for Slice of $3.5 Billion Battery Aid by EU

Climate Quants Tune Into AI to Build Better Weather Report

Dot-com Era Stock Valuations Bring Bubble Fears to ESG Funds

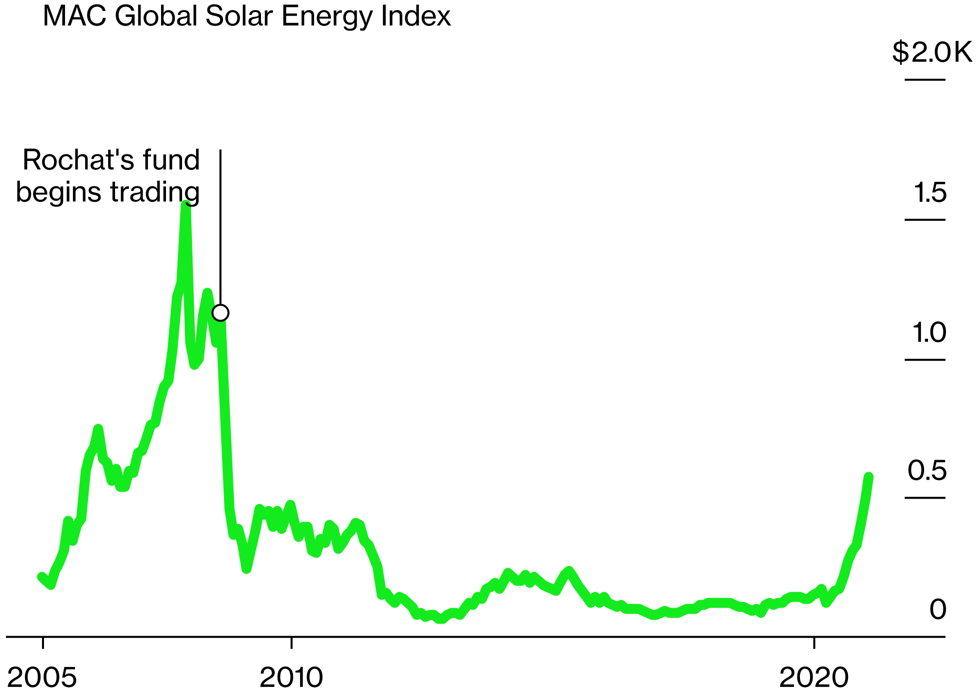
French island of Corsica and happened to meet a fellow vacationer, Bernard Loriol, who ran a thematic fund focused on platinum called Best Asset Class. Rochat refers to “Mr. Platinum” when telling the story of his “gut feeling” about the future of solar.

He came away convinced someone should launch a solar-focused fund. Rochat had seen technology up close when EOS invested in a small solar plant in France. “I thought, well, why not do it myself?” he said. “It struck me that the next big story might be solar within the energy sector.”

Active Solar launched with $25 million about a year later, on Sept. 15, 2008. He chose the date for a reason that he now calls “complete nonsense”—it was the day after his 35th birthday. It turned out to be a painful choice.

Market Timing

Rochat's launch (and his birthday) coincided with the solar bubble bursting



Source: Data compiled by Bloomberg

At around 6 a.m. Switzerland time that day, a group of senior executives at Lehman Brothers Inc. made the decision to declare bankruptcy. Rochat had never managed a fund before, and in fact the only person he knew in finance was his wealth-manager brother. He was eager to deliver for his investors despite the headlines rocking global banks.

So he stuck to the plan: all $25 million went into solar power over the next three weeks. “It was extremely bad luck because the crash arrived on the fourth week,” Rochat said.

He first road show across Europe to pitch his green strategy to investors proved a tough sell, coming right at the start of the Great Financial Crisis. The day he made his pitch in Paris the fund lost nearly 10%. The next day in Monaco it lost 11%. “It’s exactly when I was on stage talking to like 50, 80 people at the time,” Rochat said. “Yeah, it was kind of awful.”

Active Solar lost about half its investors’ money in that first year.

“Stop ringing me, you are going bankrupt”

Things improved for a few years as governments in Europe and the U.S. subsidized the growth of the solar industry. The MAC Global Solar Energy Index bounced back by more than 50% between the depths of the 2008 crisis and early 2011.

But the market got overheated. New businesses in China churned out solar equipment far faster than developers could build projects. The oversupply sent prices through the floor. Dozens of once-prominent companies either laid off employees or went out of business.

Once again, Rochat couldn't escape the carnage. Although none of the companies in his portfolio went bust, the survivors were badly damaged. His fund was down about 90% at one point. An investor he repeatedly called told him: "Stop ringing me, you are going bankrupt."

"It's one of the worst crashes that you could imagine on the stock market," Rochat said. "I don't think there are many sectors that lost so much in so little time."

Rochat took a second job as the secretary for a center-right political party in the Swiss county where he lived to support himself. But he kept the fund going. Within two years he'd recovered enough to manage the investment full time. And his stubbornness eventually worked out.

The Xinyi solar power station in Songxi, China. Intensive competition in manufacturing has driven down the cost of photovoltaic panels. *Photographer: Barcroft Media/Getty Images*

During the economic crisis brought on by the pandemic, solar truly took off. Rather than getting hurt by the world's diminished appetite for energy, solar companies soared as the technology became increasingly competitive with coal and gas power. Investors had also started rushing to make investments that are good for the climate. BlackRock

Inc., the world's biggest money manager, began 2020 with climate pledges, and demand for environmentally friendly assets continued to balloon over the next 12 months.

By October, the head of the International Energy Agency called solar the "new king" of the world's electricity markets and forecast record-setting deployment for years to come. "In the past I had to try and convince investors that solar was one day going to be cheap, was one day going to be the number one source of electricity, et cetera, et cetera. But now it's the IEA saying that," Rochat said. "So, I mean, it's easier, you know. Hey, I told you so."

Still, investors may not be in the clear. Part of the reason solar succeeded in 2020 is that costs have dropped so far. That's great for competing with fossil-fuel plants on the electric grid. But the lower price is driven by intensive competition in manufacturing. New companies can break in fairly easily, putting pressure on incumbent players.

"Fundamentally I don't think anything is different from previous boom-and-bust cycles," said Jenny Chase, solar analyst at BloombergNEF. "People are finally realizing the solar sector isn't a little thing anymore. The only question is, can you make money in it?"

Established companies may even be at a disadvantage. Solar technology is still changing rapidly. Manufacturing equipment can become outdated before the companies using it have paid off the loans needed to buy it.

Even though the cost of solar panels has come down to the point that subsidies may no longer be necessary, governments could still inadvertently create bubbles. One of the biggest constraints on new solar parks in some places, including parts of the U.S. and Spain, is access to a connection to the electric grid. If a government lifted restrictions on new connections to boost renewable power capacity, that could lead to a flood of new developments. Not all solar companies will profit from the new volumes, given they must be delivered at a low price.

For solar investors like Rochat, that creates an imperative to keep scrutinizing portfolios for potential duds. He's found a few before. In 2014 he held off buying shares of Hanergy Thin Film Power Group Ltd. before allegations of market manipulation sent shares plunging.

He's not expecting to make 100% returns every year, but Rochat believes his long-term strategy has now been vindicated. "It's absolutely the beginning of investors understanding what's happening," he said. "Basically, the world absolutely changed."