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Advisors warm up to emerging energy plays in client portfolios

Alicia Fuller, Denis Poljak, Jeff Finkelman

Wealth managers say AI and other new technologies are changing the way they invest in energy in client portfolios.

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So long dirty old oil patch! Advisors are now drilling into "emerging energy" opportunities to power growth in client portfolios.

There was once a time, not too long ago, when investing in energy solely meant buying oil or natural gas stocks. Drillers, pipeline operators, gas stations and the like were basically a wealth manager's only choices for the energy sleeve of an asset allocation.

And on the flip side, it was quite rare to find technology names among these "old economy" and generally less-than-environmentally friendly fossil fuel-based names.

The emergence of, well, emerging energy has seemingly changed that formula, advisors say. Alicia Fuller, partner and wealth manager at Coastal 360 Capital Advisors at Steward Partners, typically treats emerging energy - AI-enabled energy solutions, advanced nuclear, grid tech, storage, clean fuels and the like - as part of a broader thematic or alternatives allocation.

"Five years ago, most advisors kept energy-transition or next-gen tech exposure under 3% to 5%, often limited to renewables or broad ESG funds. As of today, allocations have increased as advanced nuclear, grid modernization, AI-driven efficiency, and battery technology matured and gained government backing," Fuller told InvestmentNews.

Fuller adds that the trend is a shift from “ESG-only” to “opportunity-oriented” exposure, focusing less on sustainability scoring and more on innovation, infrastructure, and cash-flow-producing technologies.

Jeff Finkelman, managing director of sustainable investments at Fiduciary Trust International, meanwhile, is seeing increased interest in renewables, which have become more of a mainstream investment than ever before. Renewables have historically been an area that some of his more sustainably focused clients have invested in, but with the rise of AI data centers, renewables have become much more central to the discussion of the country’s power needs.

“The discussion of the energy transition being all about climate has shifted to being about growing power needs and has become an ‘all of the above’ approach to getting electrons from wherever they can be produced. Renewables are among the fastest ways to get to that power,” Finkelman told InvestmentNews.

Christopher Zook, founder and chief investment officer at CAZ Investments, focuses on energy evolution, which he says includes “traditional energy, emerging energy, and everything in between.” In terms of portfolio construction, he believes most investors should have between 5% and 15% of a diversified portfolio exposed to energy.

“Energy is the lifeblood of the global economy, essential to supporting prosperity and meeting rising demand. That demand continues to accelerate due to AI, as well as the movement of people from lower to middle income and from middle to upper income, all of which create greater energy consumption,” Zook told InvestmentNews.

Denis Poljak, partner and wealth manager at Poljak Group Wealth Management at Steward Partners, is allocating 5% to 10% in emerging energy investments. He generally gets his exposure to the sector through publicly traded equities, however, if a suitable private equity investment is enticing then he would consider it.

“While private equity investing can be very beneficial for some, we believe the public market offers plenty of opportunity for all,” Poljak said.

BALANCING GROWTH, VOLATILITY & SUSTAINABILITY

Because so-called “emerging energy” companies are unlike many of the commodity-based, dividend-paying oil and natural gas stocks wealth managers have typically owned, advisors say they are careful to balance long-term growth with concerns about short term volatility, regulation and sustainability.

Fuller, for one, manages volatility by using ETFs and diversified funds rather than concentrated single-stock bets, building exposure gradually through dollar-cost averaging, sizing positions modestly within the overall portfolio to smooth returns and including infrastructure and utilities for lower volatility and yield. Moreover, she mitigates policy and regulatory risk by blending exposure between regulated but stable assets (like utilities, grid infrastructure) and policy-dependent growth (like hydrogen, carbon capture and nuclear SMRs), as well as diversifying across geographies to avoid single-country regulation shocks.

“We, as advisors, use sustainability as a risk-management lens where we emphasize data-driven ESG rather than exclusionary screens, focus on companies with clear decarbonization pathways, strong governance and transparent reporting; as well as using sustainability metrics as risk indicators, not investment ideology. We set these expectations with clients by communicating that emerging energy is a ‘high-volatility, high-optionality’ theme,” Fuller said.

Poljak points out that the market will always have volatile periods and that is why he invests in companies he believes are "fundamentally strong." As for the energy sector and its evolution in particular, he says it is no secret that large amounts of capital are pouring into the build-outs for data centers to provide enough compute to facilitate AI advancements.

“When we see this amount of capital flowing in, we must take note of it. These data centers require huge amounts of energy to operate, and it is an area we currently have a lot of interest in. We believe it is still early innings in the age of AI, and there are still many questions to be answered, but we believe AI is here to stay and we plan to capitalize where we can,” Poljak said.

Still, despite the massive potential for data center buildouts, Fiduciary Trust’s Finkelman says it is still important to avoid getting swept up in the AI hype.

“We need to be careful not to overextend the portfolio’s sensitivity to this theme. Ultimately, this comes down to manager selection, identifying managers who are disciplined in their investment decisions, focused on fundamentals, and who understand the underlying drivers of demand growth," Finkelman said. "The goal is to avoid strategies that rely solely on AI or data center expansion to justify the investment case, since any shift in AI sentiment or trajectory could affect the sector,” he said.