BY NICK SUDBURY

FUNDS IN FOCUS

THE RENEWABLE ENERGY FUNDS GENERATING HIGH YIELDS

2017 was a momentous year for Britain's energy market, as it was the first time that the UK generated more electricity from lower-carbon resources like renewables and nuclear power than from gas and coal.

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"THE INFRASTRUCTURE RENEWABLE ENERGY SECTOR NOW CONSISTS OF EIGHT DIFFERENT INVESTMENT COMPANIES. BETWEEN THEM THEY OWN TOTAL ASSETS WORTH £4.8 BILLION AND ARE GENERATING AN ATTRACTIVE AVERAGE DIVIDEND YIELD OF 5% PER ANNUM."

The move away from fossil fuels is being driven by the national Climate Change Act, which requires an 80% reduction in greenhouse gas pollution by 2050. It is also being helped by the reduction in the cost of generating wind and solar power.

Renewable energy projects used to require significant government subsidies to make them competitive, but that has now changed. Last year saw the creation of the UK's first subsidy-free solar farm, and improvements to infrastructure, such as the use of higher voltage cables, have enabled the cost of generating electricity from offshore wind turbines to almost halve in the last two years.

One of the main drawbacks with renewables is that the energy isn't always generated when it is needed, but the creation of new battery storage facilities might be a game changer. It is possible that these will make it viable to store the energy for future use so that it could be fed into the grid at times of peak demand.

The reduction in the cost of green energy and the growing demand for these alternative sources has led the Office for Budget Responsibility to forecast that £8.4 billion will be spent on renewable projects in the UK in 2020/21. This suggests that there will be plenty of new opportunities for investors with much of the capital being provided by specialist investment funds.

According to data from the analysts at Winterflood Securities, the Infrastructure Renewable Energy Sector now consists of eight different investment companies. Between them they own total assets worth £4.8 billion and are generating an attractive average dividend yield of 5% per annum. This has helped them to move to an average premium to Net Asset Value (NAV) of 7.8%.

Wind farms

The largest investment company in the sector is **Greencoat UK Wind (LON:UKW)**, with a market value of £1.4 billion. It has a 'buy' rating from the brokers Numis and Canaccord Genuity.

UKW provides investors with exposure to a diversified portfolio of UK wind farms, most of which are based onshore. The company has generated a strong performance record and has grown its NAV in real terms since its IPO in March 2013. It has also successfully increased its dividend in line with inflation each year.

Greencoat has consistently sought to boost its net generating capacity via new acquisitions, but during the six months to the end of June it finished 6% below its output target at 951 Gigawatt Hours (GWh), mainly due to lower wind speeds in May and June. This shortfall was largely offset by higher than expected wholesale electricity prices, so that the net cash generated was as budgeted.

The company pays a quarterly dividend of 1.69 pence per share, which represents a prospective yield of 5.3% per annum. Its overall objective is to increase the distributions in line with RPI inflation, while preserving capital on a real basis.

Greencoat continues to deliver solid returns and is one of the simpler funds in the sector to understand, with a straightforward business model and low gearing of 20%. Its consistent and well covered dividend has pushed the shares onto an expensive 11% premium to NAV, so it would be best to wait for some weakness in the share price before investing.

Solar

The other fund in the sector that is recommended by Numis is the £448 million **Bluefield Solar Income (LON:BSIF)**, which was launched in July 2013. It provides investors with exposure to a portfolio of 46 solar energy assets across the UK, with each site expected to generate stable, renewable energy over a 25-year asset life.

With funds like these, the key driver of their long-term returns are wholesale electricity prices. These can be quite volatile, so the investment managers will typically use Power Purchase Agreements (PPA) to fix the prices of some of their electricity output in advance to help ensure the sustainability of their near-term dividends.

In February, Bluefield Solar Income confirmed that it had power price visibility for over 73% of revenues for the period to December 2018. This provides a good level of transparency to investors, with the main remaining variable being the amount of solar power that the sites will actually generate.

BSIF is currently paying quarterly dividends of 1.8 pence per share, which gives the fund a prospective yield of 6.1%, one of the highest in the sector. It has delivered a decent performance since its IPO, and offers a transparent portfolio valuation, but this has resulted in the shares trading on an excessive premium of 12%.

It is a different story at the £639 million **Next Energy Solar Fund (LON:NESF)**, where the shares are available on a 5.7% discount. The weak rating is due to the dull recent returns following the slow deployment of the £126.5 million that was raised in June 2017. Recent announcements suggest that the pace of investment is finally picking up, although the high gearing might prompt another equity issue at some point in the next few months. The shares are currently yielding 5.8%.

FUND OF THE MONTH

The **Renewables Infrastructure Group (LON:TRIG)** is the second largest fund in the sector with a market value of £1.2 billion, and aims to provide investors with long-term, stable dividends, whilst preserving the capital value of its portfolio.

TRIG has acquired a diversified range of renewable energy infrastructure assets in the UK and Northern Europe, including onshore and offshore wind farms, solar farms and battery storage facilities that have a combined power generation capacity of 862MW, with a further 76MW under construction.

Portfolio performance during the six months to the end of June was mixed, with lower production on a like-for-like basis due to poor wind, offset by higher than expected power prices. This enabled the company to achieve a NAV total return of 4.7%, including the dividends.

Renewables Infrastructure is currently paying a quarterly dividend of 1.625 pence per share, which is comfortably covered by the net cash flow and gives it an attractive prospective yield of 5.8%. When it launched in July 2013, it intended to increase the dividend in-line with inflation, but falling power prices have forced it to abandon this link, although it will probably not be the last fund in the sector to have to do this.

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TRIG has delivered impressive NAV total returns of 7.2% per annum since its IPO and recent acquisitions have increased the portfolio's resilience to lower power prices as the government subsidies – typical in Ireland and France, but rare in the UK – guarantee the price received for each unit of power generated.

The company has built up a diversified portfolio that should help to ensure consistent power generation and is big enough to benefit from economies of scale. It pays an attractive quarterly dividend, which is well covered by the cash flows. The shares are currently trading on a 4.9% premium to NAV.

Fund Facts

Name:	Renewables Infrastructure Group (LON:TRIG)
Type:	Investment Company
Sector:	Renewable Energy
Total Assets:	£1.2 billion
Launch Date:	July 2013
Current Yield:	5.8%
Project-Level Gearing:	36%
Ongoing Charges:	1.19%
Website:	www.trig-ltd.com

Other options

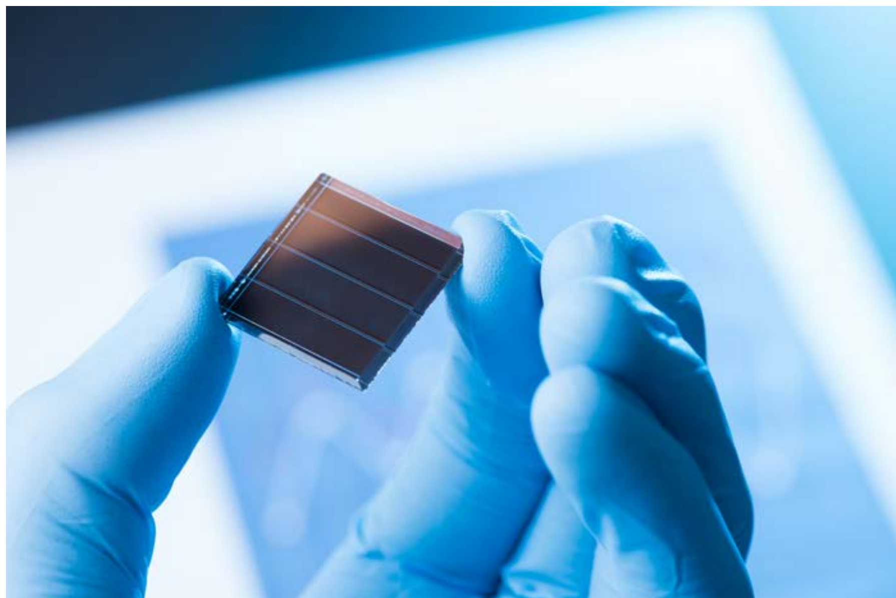
Greencoat Renewables (LON:GRP) raised €270 million when it floated on London's AIM market and on Ireland's ESM market last July. The company aims to provide investors with quarterly dividends, while growing the capital value of its portfolio, by investing in euro denominated electricity generation assets within the eurozone.

GRP owns five wind farms in the Republic of Ireland, and they have a combined capacity of 194MW, but it has recently announced a 12-month share issuance programme for up to 250 million shares that will enable it to expand. The new capital will allow the fund to take advantage of what it sees as an increasingly active secondary market for wind farms in Ireland, with the managers having identified a pipeline of assets of more than 200MW.

Greencoat Renewables is currently paying quarterly dividends of 1.5 cents per share, which gives the fund a prospective yield of 5.8%. It is trading on a 6.6% premium to NAV.

One of the main problems with solar and wind power is that the energy can't always be generated when it is most needed, hence the creation of the world's first listed energy storage fund, **Gore Street Energy Storage (LON:GSF)**. The intention was to raise £100 million of investment capital, but despite securing funding from two keystone investors it only managed to attract a total of £30.6 million when it listed in March.

GSF will invest in a diversified portfolio of utility scale energy storage projects primarily located in the UK, and it currently has two operational assets. It is targeting a dividend yield of 7% per annum as well as an element of capital growth, but it is too early to



tell whether or not it will achieve these ambitious targets.

Open-ended funds

There are also a handful of open-ended funds operating in the renewable energy sector, although they offer a different type of exposure than the investment companies. Rather than invest in illiquid assets such as wind farms and solar farms that cannot easily be sold to finance client redemptions, they hold shares in businesses involved in the industry.

The biggest of these funds is **BlackRock New Energy** that was launched in April 2001 and has assets under management of $1.1 billion. It is mandated to invest at least 70% of its portfolio in new energy companies, which are businesses that are engaged in alternative energy and energy technologies, including renewable energy technology, renewable developers, alternative fuels, energy efficiency and enabling energy and infrastructure.

BlackRock's largest holdings include the likes of renewable giants such as Enel, Kingspan, and Vestas Wind Systems, as well as more familiar names such as National Grid. Its performance has recently improved and over the last five years it has produced a reasonable annualised return of just under 7% per annum.

Another decent sized option is **Pictet Clean Energy**, which invests at least two-thirds of its total assets in the shares of companies that contribute to and benefit from the switch to lower-carbon energy sources. This gives it the freedom to invest in businesses operating in the field of cleaner infrastructures and resources, carbon reducing technologies and equipment, as well as the generation, transmission and distribution of cleaner energy and energy efficiency.

The managers have put together a relatively concentrated portfolio of 59 holdings, with the largest including the likes of Nxp Semiconductors, Aptiv plc, Applied Materials and Synopsys. Over the last five years, the fund has generated a cumulative return of 52.4%.

Amongst the ETFs operating in this area is the **Vontobel Fund – New Power**, which invests in companies that offer new technologies and innovative solutions that aim to achieve more efficient energy use and the use of alternative energy sources.

The fund was launched in December 2001 and is mainly invested in stocks that provide demand side energy savings, although there are also holdings in businesses involved in the efficient generation and transmission of energy, as well as companies operating in the wind and solar power industries.

It is a global fund with the largest positions including the likes of Nextera Energy, Synopsys, Schneider Electric and Roper Industries. Over the last five years, it has generated an annualised return of 6.2% per annum.

About Nick

Nick Sudbury is an experienced financial journalist who has written extensively for a range of investment publications aimed at both private and institutional investors. Before moving into journalism he worked both as a fund manager and as a consultant to the industry. He is a fully qualified accountant and has an MBA with finance specialism.