Heartwood
Investment Management

Investment insight

Renewable infrastructure: A key piece in the sustainable jigsaw

Achieving a positive impact on social or environmental outcomes combined with the delivery of compelling financial returns is at the heart of sustainable investing. It means finding investments that can deliver those positive outcomes, while at the same time excluding those that could do harm or are ethically unpalatable.

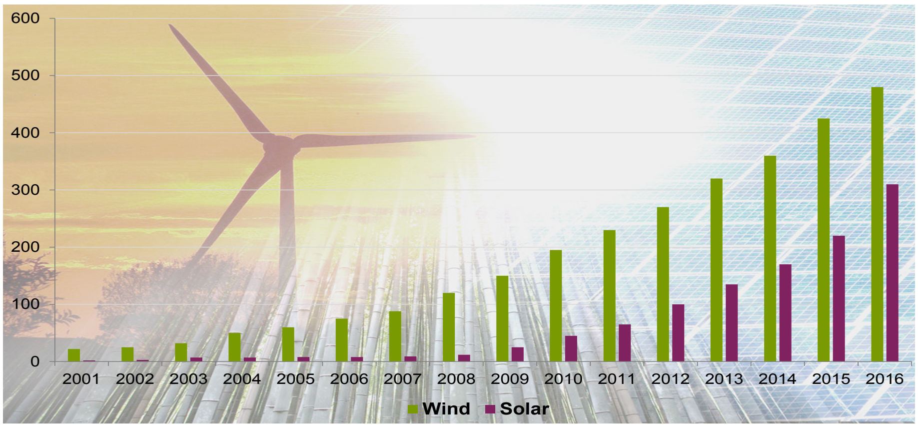
Renewable infrastructure has become a key piece in the sustainable jigsaw over the last decade, driven by technological and value chain improvements, as well as global initiatives towards a cleaner, lower-carbon environment.

The asset class is now sufficiently mature to be a viable investment proposition. Renewable energy technology, especially solar and wind, has made exponential gains in efficiency in recent years, enough to achieve economic competitiveness and, in an increasing number of cases, grid parity – that is, at the same cost, without needing subsidies, as conventional sources. In investment terms, renewable infrastructure has therefore moved much closer to a typical utility and no longer carries the risks associated with frontier technology. There is still some way to go, though. At the end of 2016, just 11% of global electricity production was from a renewable source (with 17% of capacity).[1]

Infrastructure is an attractive asset class characterised by stable and predictable demand, high barriers to entry and long-term contracted revenue streams. Companies in the sector often benefit from protection against inflation as a high proportion of their underlying asset revenues are directly linked to inflation. In addition, the current spread between listed UK renewable energy and infrastructure funds' discount rates, and the risk-free rate should provide a buffer to potential further interest rate rises.

Still a long way to go...but on the right track

Global cumulative installed wind and solar capacity (GW)[2]



Estimates based on Global Wind Energy Council (wind) and IEA data (solar)

Past performance is not a reliable indicator of future results.
Source: TRIG

How are we investing in renewable infrastructure in our Sustainable portfolios?

We have two investments in this sector in the portfolios: Renewable Infrastructure Group (TRIG) and NextEnergy Solar Fund. These complement each other as TRIG's portfolio is 70% wind assets and NextEnergy's is 100% solar.

1 Source: TRIG

Clear Thinking

Contact

To find out more about the Heartwood strategies, visit our website or contact your local representative.

TRIG is a renewable energy infrastructure fund which invests predominantly in onshore wind and solar photovoltaic (PV) projects. The portfolio is highly diversified and produces a stable long-term revenue stream that is linked to inflation. The main credit exposure is to national governments (via subsidies) and major utilities. These factors underpin a dividend yield of c.6%. This provides stable cashflows uncorrelated with the wider equity market.

The fund is diversified across technologies and markets and benefits from long-term policy commitments in the UK and Europe (some 15% of the UK's energy consumption is to be sourced from renewables by 2020.) There are increasing opportunities in offshore wind and energy storage (the fund has a battery storage unit in Scotland), benefitting from economies of scale in wind and solar and a healthy pipeline of opportunities.

The NextEnergy Solar Fund is a specialist investment company focused on operating solar PV assets located in the UK and Italy. The company has extensive experience in developing and investing in solar assets. As long-term asset holders, the managers only purchase an asset when it meets their high standards of operational efficiency and technology.

The fund targets 7% unlevered equity returns and has a low correlation to equity markets. Falling energy prices have been a headwind in recent years, but with global inflation expectations rising, the fund could potentially benefit from rising prices.

Positive outlook

We are positive on the outlook for the renewable infrastructure sector and are comfortable that this is a sustainable source of income. Technological advance and cost efficiency mean we are less concerned about the recent removal of subsidies for new projects (excluding offshore wind), although it is important to highlight that the majority of our exposure remains supported by contracted subsidies.

Renewable infrastructure has broad public and political support and remains a dominant force in new and sustainable energy generation projects worldwide.

Ben Matthews
Manager, Sustainable Strategies

Important Information