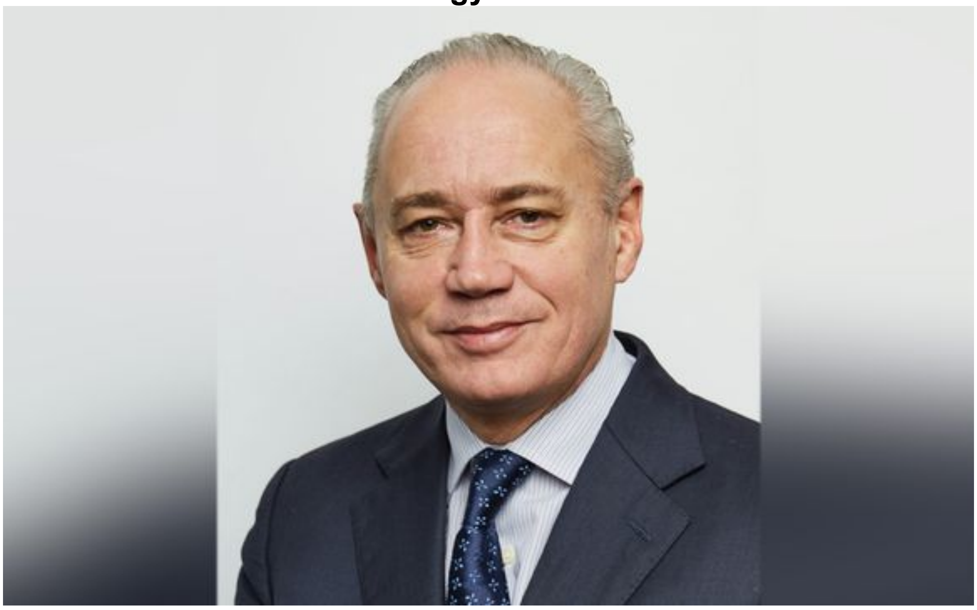
Investment Week
20 June 2017

Why renewable energy is boosting infrastructure funds
Accounts for 24% of our energy needs



Stephen West of Gravis Capital Management: "Value investors will understand the conservative assumptions used to generate NAVs"

The most important bullish factor for infrastructure investing in the UK is the continued supply of high-quality investable assets producing long dated, fixed rate cash flows with upward only inflation linkage.

There is no doubt of the UK government's commitment to infrastructure development and renewal, with the Hinckley C plant costing £29.7bn and Crossrail £14.8bn.

Hinckley C will be the most expensive object ever built on Earth, for a plant which will generate 7% of the UK's needs.

Renewable energy currently provides about 24% of energy needs and, as such, installed solar and wind generation projects are excellent assets.

Why infrastructure funds are positioned to benefit from fiscal stimulus

While new renewables projects with government subsidies are becoming rarer, the best renewables closed-ended investment companies continue to acquire and consolidate installed capacity with government subsidies.

These have acquisition yields between 7.5% and 9% (with 20-year gilts at 1.69%).

Bearish influences in the sector include the potential for investment decisions to be made based on assumptions concerning regulation which prove erroneous - few were expecting a Conservative manifesto policy to cap standard variable tariffs for energy utilities.

Beyond Trump's rhetoric: Where are the infrastructure opportunities?

While a cap at the weakest end of assumptions, as part of a broader energy strategy including the promotion of shale exploration now seems to be the outcome, share price volatility in the major energy suppliers has been pronounced.

Another bearish factor is the premium levels that some of the closed-ended investment companies (both infrastructure and renewables) and REITs have reached.

Value investors will, however, understand the conservative assumptions used to generate NAVs, and will perform their own analysis.

Does renewable energy have a Trump card?

That said, in the absence of placements (perhaps indicating that supply of the very best projects in some areas is starting to dry up), we have seen the natural effect when there is an excess of demand for high-quality assets, and some premiums have moved further ahead.

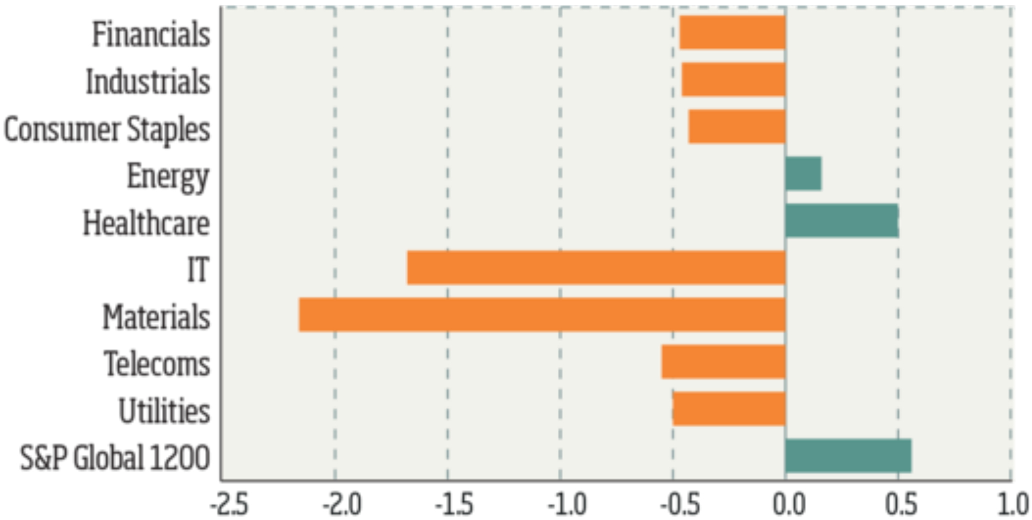
In the absence of any strong surge in issuance, however, current levels may prove persistent with holders reluctant to sell assets which they feel have locked in yields with inflation upside, at a time when yield is not becoming easier to find.

Stephen West is director of Gravis Capital Management and adviser to the VT UK Infrastructure Income fund

Bull Points
- Continued supply of high-quality assets
- Strong government commitment to UK infrastructure

Bear Points
- Projects with government subsidies are becoming rarer
- Regulation has the potential to be changed unexpectedly

S&P Global 1200 sector returns



12 June 2017 - 18 June 2017. Source: Morningstar