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Trustnet

magazine

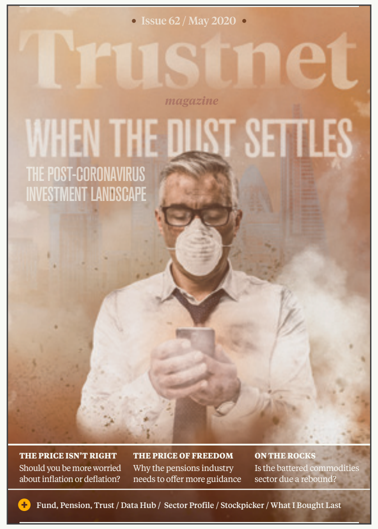
WHEN THE DUST SETTLES

THE POST-CORONAVIRUS INVESTMENT LANDSCAPE

THE PRICE ISN'T RIGHT
Should you be more worried about inflation or deflation?

THE PRICE OF FREEDOM
Why the pensions industry needs to offer more guidance

ON THE ROCKS
Is the battered commodities sector due a rebound?



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CREDITS

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FE fundinfo

Editor's letter

As hopes of a swift recovery disappear into the distance and we adjust to the new normal, Trustnet Magazine has turned its focus to what investors can expect once the dust settles. In this month's cover story, Hannah Smith attempts to find out how the long-term investment landscape will differ from before the coronavirus-related shutdown, while I take a more focused look at the competing forces of inflation and deflation to see which is more likely to emerge triumphant in the coming years. Staying on this subject, Rebecca Jones weighs up the options for income-seekers now their love affair with UK dividends appears to be over.

This month's sector focus falls on IT Commodities & Natural Resources – it has struggled to eke out a return over the past decade, but Adam Lewis says that certain trusts could now be due a rebound.

In our regular columns, John Blowers says it is time for the financial services industry to step up and provide more help to retirees, Fidelity's Leigh Himsworth names three renewable energy stocks he is backing and Sarasin & Partners' Adil Alaoui reveals why he has bought the Gresham House Energy Storage Fund.

Enjoy reading,

Anthony Luzio
Editor

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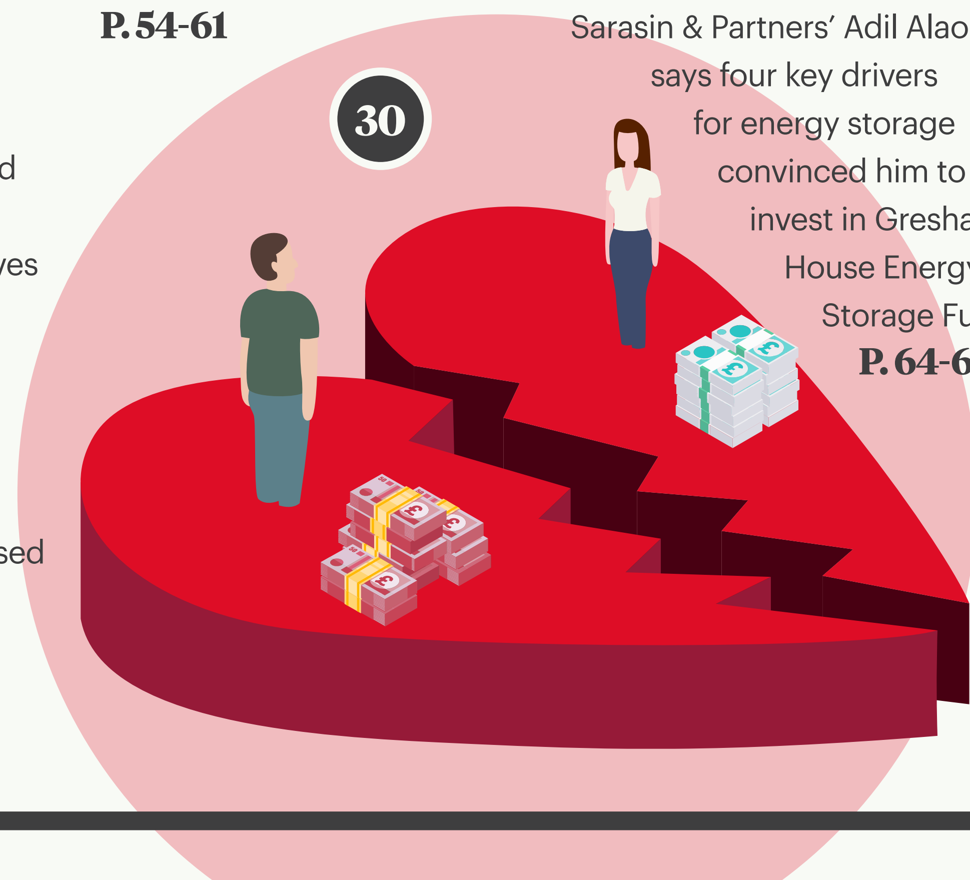

Hannah Smith finds out how the post-coronavirus investment landscape will differ from how it looked before

When the dust settles

As the Covid-19 pandemic passes its peak, governments the world over are focusing their efforts on how to reopen their economies for business. For investors, however, things may never be the same again. In the same way that we are trying to adjust to new social norms and methods of working, investors will have to reconsider their strategies in light of a changing landscape for business.

Perhaps the most striking aspect of this crisis is that we thought we had already seen the end of quantitative easing as the Great Experiment wound up, a decade after the global financial crisis. But central banks have turned on the taps once more, even using helicopter money in an attempt to buoy economies shocked by the pandemic, and no one knows what the long-term impact will be.

In the UK, interest rates have slumped to a record low of 0.1 per cent and are likely to remain there for the foreseeable future. Julian Chillingworth, chief investment officer at Rathbones, says the companies that will do well in this environment are those with good cash flow, a robust business model and low leverage, adding "they will continue to trade at a premium to the rest of market". Of these, technology companies stand out, so he suggests investors should make sure they have an allocation to this area of the market.

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The companies that will do well in this environment are those with good cash flow, a robust business model and low leverage

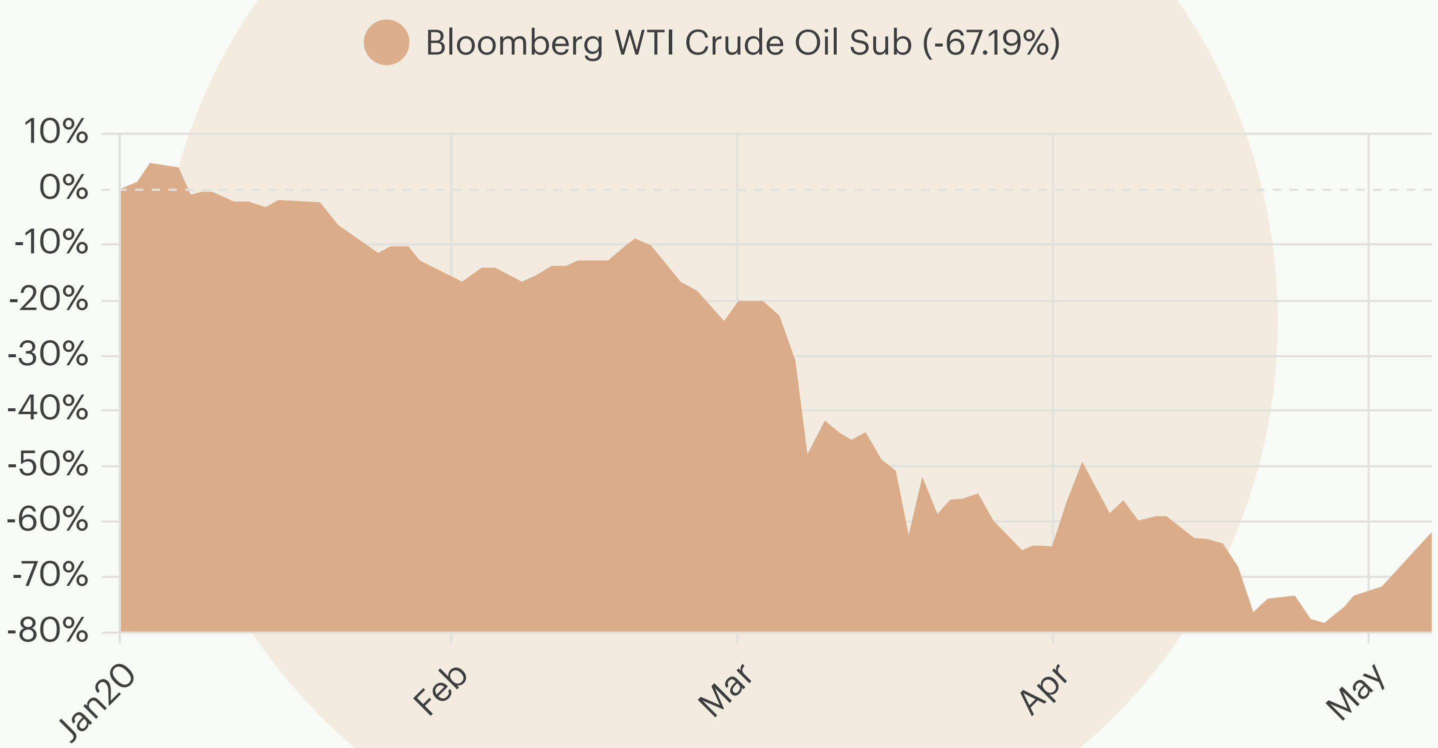
Bailout or bust?

Investors will have to be more selective as many important sectors of the UK economy are already taking a battering from lockdowns and social distancing measures. Numerous retailers and consumer discretionary businesses will be in "sink or swim" territory as they attempt to adapt to changing customer needs.

The slow death of the high street began long ago, but coronavirus has hastened its demise. Retailer Next, considered one of the better-quality companies in the space, has cancelled its dividend and share buyback programme as it reported a 40 per cent slump in sales. This is a trend likely to be echoed across the marketplace. There will be trying

Investors will have to be more selective as many important sectors of the UK economy are already taking a battering from lockdowns and social distancing measures

PERFORMANCE OF INDEX IN 2020



Source: FE Analytics

times ahead for income investors as more companies cut their dividends, while others will struggle for survival.

"Companies that are consumer-facing and highly leveraged will go bust, because governments around the world aren't going to save everybody," says Chillingworth.

Phoenix from the ashes

But some winners will undoubtedly emerge once the dust settles. The latest figures from the Office for National Statistics show that online retail hit a record 22.3 per cent of total sales in March as customers in lockdown switched to internet shopping. Consumer staples companies and those that can successfully adapt their business to ecommerce could be the phoenix that rises from the ashes. Investors who have done their homework and chosen companies with strong fundamentals should rest easier in the knowledge that the best businesses will eventually return to form, says Samantha Owen, director at Beckett Asset Management.

TRUSTNET

Consumer staples companies and those that can successfully adapt their business to ecommerce could be the phoenix that rises from the ashes

"As far as investments go, it seems that established trends are being accelerated by the current crisis," she notes.

"Even before Covid-19, high street shops were already under pressure from ecommerce, while oil companies were fighting a losing battle against the long-term decline in hydrocarbon consumption."

Energy companies are facing unique challenges – in April, the oil price turned negative for the first time, while the UK's largest income-payer Shell slashed its dividend for the first time since the Second World War.

"A lot of companies are cutting dividends to help them get through,

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[but] for every company facing a prolonged period of tough times, there is another where Covid-19 will ultimately prove transitory," Owen adds. "Great companies with relevant business models will undoubtedly see earnings and dividends bounce back."

Airlines in a tailspin

Another industry that has borne the brunt of coronavirus is the airline sector, as global travel ground to a halt. The government has bailed out some operators, while consolidation is expected among the larger players and others are likely to go bust. Covid-19 has already proved to be the final nail in the coffin for Flybe, which collapsed into administration in March. Virgin Atlantic is seeking a government bailout, Ryanair will cut 3,000 jobs, while British Airways is making 12,000 staff redundant in response to what it called "an unprecedented crisis".

"All their planes have been grounded, there's no revenue, so it's no wonder airlines are struggling," says Richard Cole, fund manager at Future Money. "But even when we get through the current crisis, the airlines that are still in business will face longer-term challenges in terms of business travel."

He points out many companies are getting used to using video conferencing technology, which will reduce the need for travel to face-to-face meetings.

The chancellor may step in with support packages for those airlines that have exhausted commercial opportunities for raising cash, probably in exchange for equity in the businesses, Cole adds.

"But it's possible that the government help gets there too late. I could see more airlines going bust."

However, there are only a handful of UK-listed airlines, so the impact should not be disastrous for investors as long as they are broadly diversified.

Breaking the chain

The wider trend of "reverse globalisation", characterised by US president Donald Trump's protectionist policies and trade war with China, is

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Online retail hit

22.3%

of total sales in March

"I suspect we've yet to get to grips with the full extent and reality of what this means in terms of the economics for global financial markets"

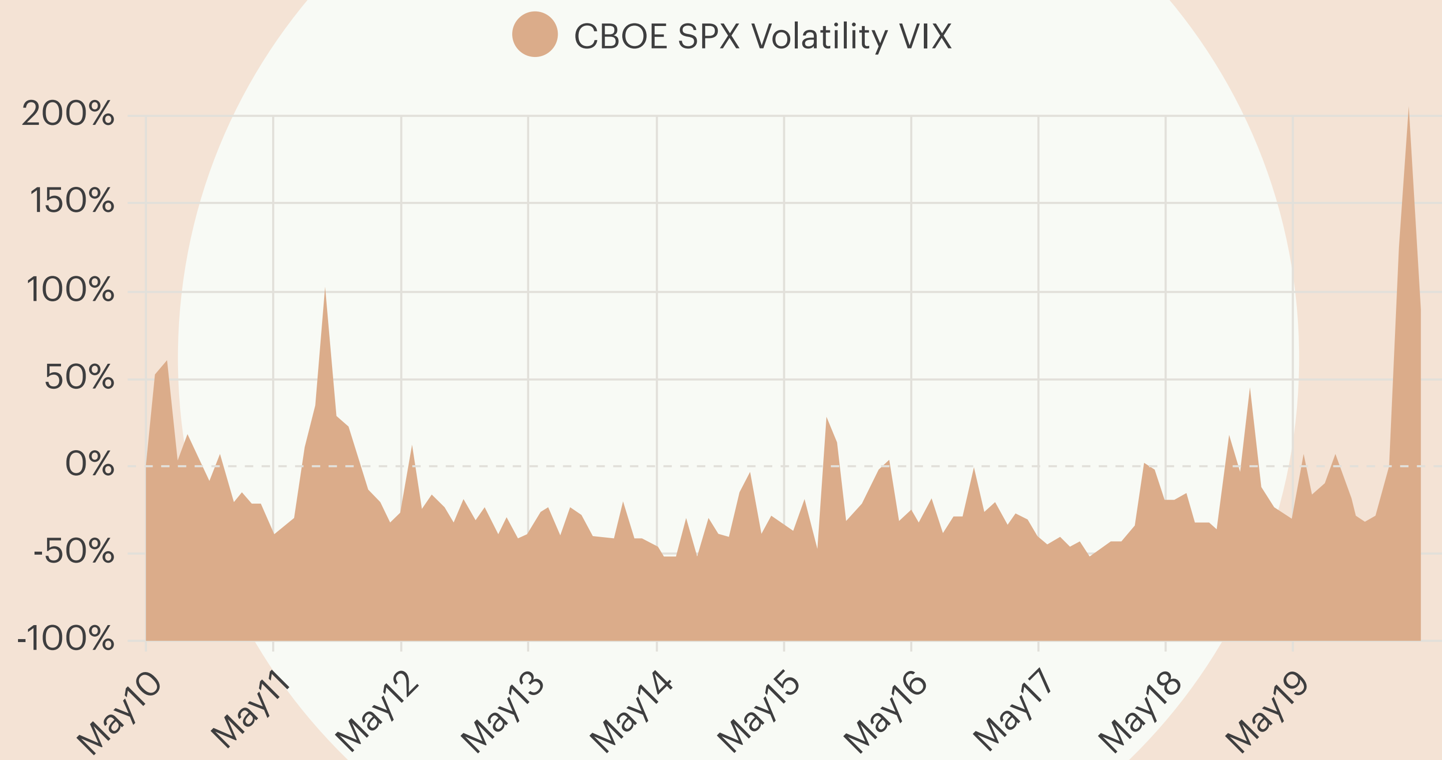
The fear index

The VIX, a measure of volatility in the S&P 500, spiked to a record closing level above 82 in March as panic selling took hold – usually any reading above 20 is considered high. Higher volatility is expected to persist for some time and investors may want to remain cautious in case of a fresh bout of selling when the full impact of the pandemic on the global economy becomes clear.

"I suspect we've yet to get to grips with the full extent and reality of what this means in terms of the economics for global financial markets. It wouldn't surprise me if we have secondary waves – the recent oil sell-off is a good example," says Chillingworth.

"In times of stress, you need to be careful and defensive. This is not a time for heroes."

PERFORMANCE OF INDEX OVER 10YRS



Source: FE Analytics

changing company supply chains. Businesses that source stock and parts from across international borders have found it difficult to keep production running and goods flowing. Some companies are now looking to shorten their supply chains by bringing production back onshore, as lowering the risk of business interruption is prioritised over cheap labour.

"Globalisation has led industries to site production in many different countries around the world, using 'just-in-time' methods which are heavily reliant on smooth international travel and transit," explains Cole.

"In the past couple of months, international trade has been significantly hit, international travel has pretty much ground to a halt and there are going to be a lot of companies cursing their long supply chains."

Companies including Apple, Harley-Davidson, Boeing, Ford and Adidas have been reshoring some of their factories back to the US in recent years, while ASOS, Gtech and Cadbury are among the businesses investing in domestic production facilities in the UK. Yet this has its own risks: shoemaker Clarks brought production back to Somerset from the Far East in 2017, but closed the new factory last year after it failed to reach production and cost targets.

Businesses that source stock and parts from across international borders have found it difficult to keep production running and goods flowing

Although not every move will be successful, this trend is likely to increase. How would this affect investors? Cole suggests higher labour costs could push up the price of goods, increasing inflation and therefore bond yields.

How to position your portfolio

Chillingworth's base case is that we won't see a return to normality in the UK for at least a year, so investors should probably look at whether their portfolios are prepared for whatever may come.

As well as taking a defensive stance, he says you should have exposure to technology and consumer staples. While there will be some winners, investors will need to be careful as it will take time for companies to adapt.

"It will probably pay to wait to see how it shakes down as I don't think it's going to be a quick and painless transition from one sort of business model to the other," he finishes. ●

Growth stocks have generally fared better than value stocks during the coronavirus pandemic, helping Scottish Mortgage Investment Trust during the worst of the stock market falls. Joint manager **Tom Slater** explains why

Why this crisis favours growth stocks

Tom Slater, joint manager of Scottish Mortgage Investment Trust, has seen crises come and go. They've mostly led value stocks to outperform their growth counterparts.

Not this time.

The difference, Slater points out, is that the crisis had nothing to do with economic conditions. Its unprecedented circumstances have favoured growth companies, forcing change on existing industries and causing us to rethink entirely how we interact.

"If you can't go out and meet people face-to-face, then you want to use consumer internet technology companies to socialise," he suggests. "If you can't go into the office to work, then I think the tools of remote working become really important. You also see an acceleration of some of the big trends that have been driving these changes."

While acknowledging that some of the moves and practices may unwind once normality returns, he is equally convinced that others will become more ingrained.

"The video conferencing market has been tiny for years, because the

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"If you can't go out and meet people face-to-face, then you want to use consumer internet technology companies to socialise"

“Instead of trying to predict the path from here, we focus much more on whether we’re investing in companies that are flexible, that are resilient, and that can be robust in the circumstances being thrown at them”

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equipment was very difficult to use and the experience was really poor,” he says before highlighting the unparalleled growth in business over recent months for the video calling company Zoom, a Scottish Mortgage holding.

“We’ve seen an explosion in demand for services, but post-lockdown, as you start to see things moving to a more normal framework, I think people who’ve become much more familiar with the service will start to say, ‘do I need to travel to this meeting or could I do it via Zoom?’”

Financial markets typically suffer from extreme events that create sporadic spikes in volatility, he suggests. However, today’s problems have arrived more suddenly and are unquestionably deeper than those of the past.

“We haven’t, as a society, shut down the economy voluntarily before,” he points out. “Instead of trying to predict the path from here, we focus much more on whether we’re investing in companies that are flexible, that are resilient, and that can be robust in the circumstances being thrown at them.”

Seeking affirmation that the trust holds the right companies has kept Slater busy over recent weeks.

“I think it’s a really interesting prompt to test your conviction in an investment case. Have events been playing out as you hoped, is the company doing what you wanted? You want to make absolutely sure that your capital is invested in your highest-conviction ideas,” he says.

“But you also want to be investing in the companies that you think are able to contribute positively to society through these difficult environments. You want to be investing in the companies that are going to come out of this stronger.”

He offers the example of the trust’s largest holding, Amazon, saying: “They’ve recruited 100,000 new employees in the US, they pushed up wages for their employees during this period, and that’s enabled them to service the increased demand that they’re experiencing. They’re prioritising away from the full breadth of selection and focusing on essential items.

“And those are exactly the things that as a society we’re wanting them to do through this period, and they are exactly the sorts of things that a company with their balance sheet strength, their position in the market ought to be able to deliver, to be

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ANNUAL PAST PERFORMANCE TO 31 MARCH EACH YEAR (%)

	2016	2017	2018	2019	2020
Scottish Mortgage	-0.7	40.9	21.6	16.5	12.7
FTSE All World	-0.5	33.1	2.9	10.7	-6.2

Past performance is not a guide to future returns.

Source: Morningstar and FTSE, share price, total return. Sterling.

The current situation has also highlighted long-term trends in healthcare. Here, Slater has focused stock selection on companies that offer solutions in complex areas such as genomic and molecular understanding of disease

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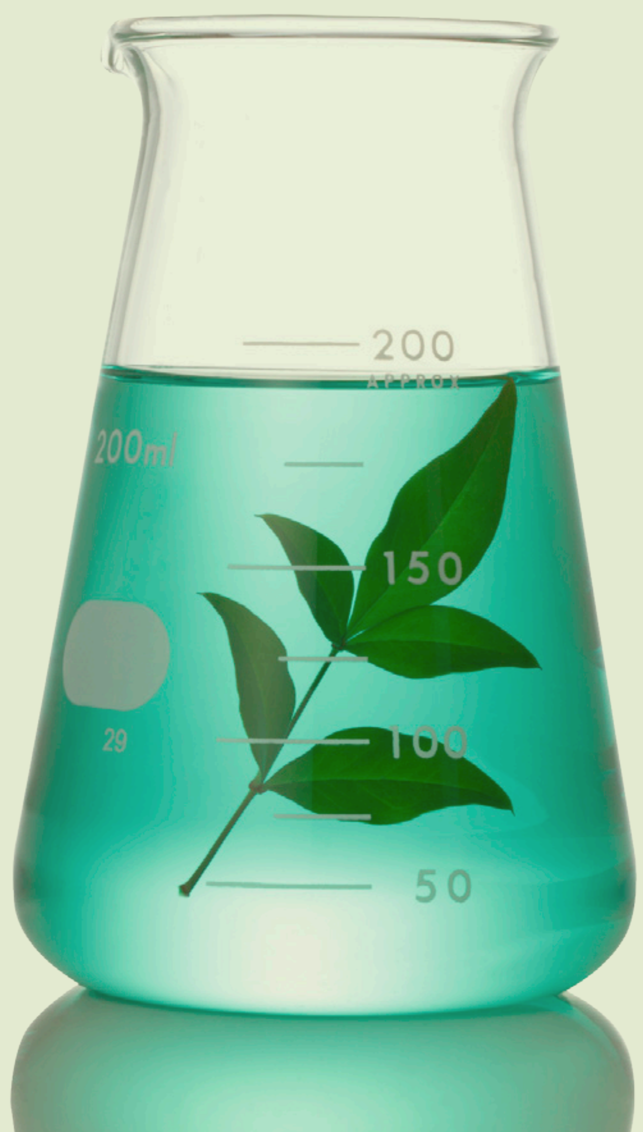
part of the solution to what we've experiencing."

The current situation has also highlighted long-term trends in healthcare. Here, Slater has focused stock selection on companies that offer solutions in complex areas such as genomic and molecular understanding of disease. Holdings include Vir Biotechnology, which was a private company when Scottish Mortgage first invested, but has subsequently listed on public stock markets. It is seeking to develop vaccines and treatments for infectious disease, and could potentially be part of the answer to the pandemic.

Vir's transition from private to publicly-listed company could be repeated by other unlisted holdings, which can represent up to 25 per cent of the Scottish Mortgage portfolio. These companies are normally valued on a three-month cycle but market uncertainty means that timescale has been tightened to provide reassurance against concerns that the trust's recent outperformance relative to plunging indices has been distorted by the unlisted holdings.

"In between those three-month points, another trigger for looking at the valuation can be significant developments. And the very dramatic swings in the markets that we've seen absolutely fall into that category because you've seen such a rapid change in the valuation of listed peers. We use that as a prompt to revisit the valuations of our private companies," Slater explains. "They will be adjusted to reflect current market conditions. And so we capture on a real time basis the significant moves in markets and the valuation of our invested companies."



Doing so is reassuring for Slater as it means there are no nasty surprises hidden from view. It could also give shareholders more grounds for confidence in uncertain times.

You can listen to Baillie Gifford's podcast *Short Briefings on Long Term Thinking* at bailliegifford.com/podcasts. ●

Massive fiscal easing may unleash the forces of inflation on the economy – but deflation could be an even bigger threat, writes **Anthony Luzio**

The price isn't right

One of the most overused metaphors about the coronavirus crisis is that we are "at war" with the pandemic. While the analogy has been stretched to breaking point over the past couple of months, one way in which many analysts accept there are similarities is that when war is financed from an ever-increasing debt pile, rather than taxes, it eventually leads to higher inflation.

If you want to know why this is a problem, Sanlam UK's chief investment officer Phil Smeaton says you should begin by taking a step back and looking at what inflation actually means.

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"If you think about the concept of inflation, it is really more money chasing fewer goods," he explains.

"That's what translates monetary inflation into consumer price inflation.

"People aren't spending much at the moment. But once we get back to normal and people have assessed what goods and services they want in regular day-to-day life, they will start chasing those with money."

Unlike in the aftermath of the financial crisis when quantitative easing got locked up in the balance sheets of the banks – which led to inflation in asset prices, but not in the real economy – Ruffer's investment director Bertie Dannatt says this time it is going directly to businesses and individuals, or "people who will spend, because they need to".

Smeaton says it is generally bad news when high inflation is produced in this way, as the government has

"Once we get back to normal and people have assessed what goods and services they want in regular day-to-day life, they will start chasing those with money"

Inflation is on the whole good for equities in the long term as companies can pass on price rises. However, in the short term it creates uncertainty

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taken people's spending power and squandered it on something they didn't want, meaning they get poorer in real terms.

The good news

So, what can investors do to protect themselves? The good news, according to Smeaton, is that inflation is, on the whole, good for equities in the long term as companies can pass on price rises. However, in the short term it creates uncertainty.

"Companies really struggle to understand what the real price signals are," Smeaton says.

"Is it a real price signal to produce more of this stuff, or is it just inflation? That confusion then percolates all the way through the economic system, which means that there's more of a chance of producing the wrong goods that people don't really need.

"What you find is everything doesn't go up simultaneously, it tends to move through in waves in the

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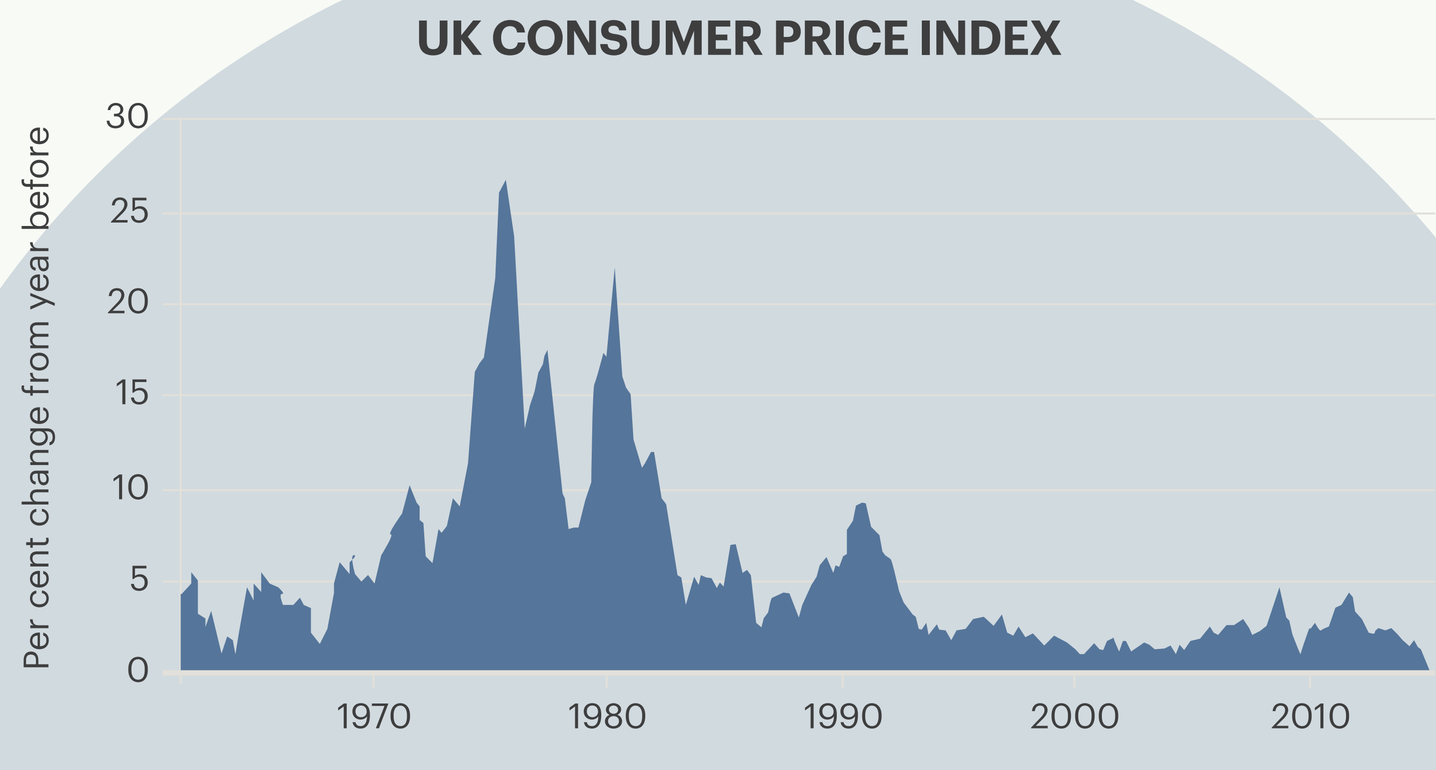

Source: Organization for Economic Co-operation and Development

"Pricing power comes from selling products or services which are of real importance to customers and are not easily bought elsewhere or substituted, being protected through intellectual property, brands, assets and skill sets"

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economy. And you might find one pocket rises and another catches up."

Paul Jourdan, manager of the TB Amati UK Smaller Companies fund, says certain types of equities do better than others in an inflationary environment. Unsurprisingly, the key trait to look out for is pricing power – something that is at the forefront of his investment process.

"It is one of the defining characteristics of a growth company," he says. "Pricing power comes from selling products or services which are of real importance to customers and which are not easily bought elsewhere or substituted, being protected through unique intellectual property, brands, assets and skill sets. Over the next few years this is likely to be even more important than ever."

Dannatt says a good example of a company with pricing power is Tesco – its status as the dominant UK supermarket lets it raise prices in line with the prevailing market in an inflationary environment, allowing it to maintain margins on a gently appreciating top line.

Even better than a company with pricing power, he adds, is one that doesn't see an equivalent rise in costs.

"Labour costs rank among the most demanding liabilities for any business," the investment director explains. "That's why we like Disney: the US media conglomerate owns all its content and its new streaming service, Disney+, is well positioned to grow on higher margins. Unlike the Premier League where football players have all the pricing power, Mickey Mouse is yet to ask for a pay rise in 92 years of service."

The missing link

Away from equities, Dannatt says there are numerous other assets that investors can rely on in an inflationary environment. He believes the most powerful of these are index-linked bonds.

"Disney+ is well positioned to grow on higher margins. Unlike the Premier League where football players have all the pricing power, Mickey Mouse is yet to ask for a pay rise in 92 years of service"

"As opposed to their conventional counterparts, index-linked bonds pay a coupon and have a redemption value linked to the rate of inflation, pricing off the difference between interest rates and inflation," he explains. "This means, with rates pinned down, even moderately high inflation should see them do very well."

Then there is the classic inflation hedge: gold. Unlike with paper money, the commodity's purchasing power cannot be diluted, with Dannatt noting the asset is particularly potent in the context of

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rock-bottom interest rates as there is currently little opportunity cost in owning zero-yielding bullion.

One option for anyone bothered by the unproductive nature of the precious metal is gold mining stocks. Jourdan says that while this is riskier than just buying the commodity itself, it is a more productive use of money, as it is possible to make good returns even if the gold price doesn't rise.

"The key is to invest in well financed, high quality and well-run mines with world-class deposits, stable jurisdictions and a lowest-quartile cost of production," he adds.

Reverse ferret

Unfortunately, it is not just a case of piling into inflation-proof assets and adopting the brace position. David Coombs, head of multi-asset investments at Rathbones, believes deflation may be more of a problem, especially in the short term.

"The amount of fiscal and monetary stimulus is off the scale," he says. "There is no parallel through which to measure this and we have no idea whether it will succeed, nor do we know where it ends or what the impact will be. If you've got central banks issuing debt and then buying it back and writing it off, that is putting a lot more money into the economy.

"But if we didn't have this stimulus, we would have five to 10 years of deflationary forces affecting the global economy and those haven't gone away. If anything, they have been accelerated. So you're going to have the structural forces of deflation versus the tactical impact of stimulus, which should be inflationary, with the two meeting in the middle."

But which of these forces is he backing to come out on top?

"The first thing to say is, I don't know – anyone who says they do is being disingenuous," he continues.

"It almost doesn't matter – what matters is what people think will happen because that's what will drive the market in the short term."

With so many structural shifts going on, Coombs wants to hedge his bets either way. However, if he were forced to bet, he would put his money on the bond market being right.

"At the moment the bond market isn't worried, it is telling you this recession is just adding to the deflationary force," the manager says. "But I think in the short term, inflation expectations could rise even if inflation doesn't, and I want to hedge that out as well."

> **"The amount of fiscal and monetary stimulus is off the scale. There is no parallel through which to measure this and we have no idea whether it will succeed, nor do we know where it ends"**

Cash and high-quality bonds do well during times of deflation, but Coombs says there are a couple of equities that should be OK as well.

"You want to own Amazon whether it is inflationary or deflationary, actually," he adds.

While it is possible to protect against inflation and deflation if you make the right call, Smeaton worries about whether the wider industry is prepared for a switch to either outcome. He believes there is a problem specific to this moment, of which he may be a symptom.

"I started investing professionally in 2007," he explains. "Most people in the market, myself included, have never really seen an inflationary period and we don't have the institutional memory to cope well with it either. It could become a tricky environment – but also a learning opportunity for everyone." ●

Rebecca Jones weighs up the options for income-seekers now their UK dividend love story is over

Divid-end of the affair

The Covid-19 pandemic currently ravaging the globe has dealt a blow to investors of every ilk, though perhaps none more so than those in search of income. As of 5 April, 45 per cent of dividend-paying companies in the UK had cut their shareholder payouts, with banks withdrawing the lion's share of income from the FTSE 100 following pressure from the government and regulators. With the Investment Association having scrapped the yield requirement for both the IA UK Equity Income and Global Equity Income sectors, the prognosis is not good for anyone relying on dividends.

Richard Hunter, head of markets at interactive investor, expects the FTSE 100's average yield to halve to around

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2 per cent this year. He was previously bullish on oil & gas dividends, but Shell's 60 per cent cut to its payout – the first reduction since the Second World War – has left him uncertain about the income outlook for the sector: "It is a defining moment. I do not believe Shell's decision puts any pressure on the likes of BP, [but] a prolonged period of oil-price weakness would undoubtedly keep the pressure ramped up on the oil majors."

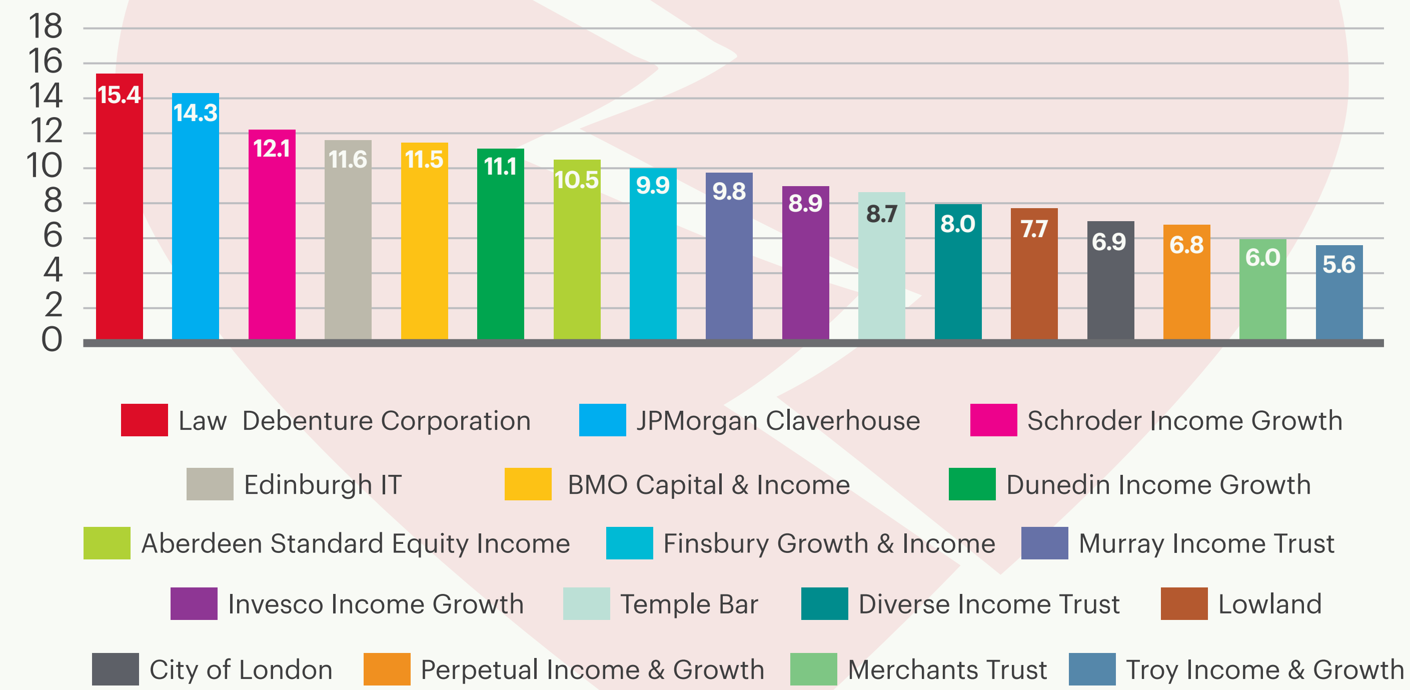
Sectors expected to hold up better include utilities, healthcare and food & drink. Supermarkets are also enjoying a welcome boost having been pariahs of the income world for nearly a decade. Robin Geffen, manager of the Liontrust Income fund, recently added Sainsbury's to his portfolio.

"In 2019, Sainsbury's had nearly 16 per cent of its sales online already

"It is a defining moment. I do not believe Shell's decision puts any pressure on the likes of BP, [but] a prolonged period of oil-price weakness would undoubtedly keep the pressure ramped up"

REVENUE RESERVES

(EXPRESSED AS THE NUMBER OF MONTHS OF THE LAST ANNUAL DIVIDEND)



Source: Investec. As at 30/03/2020

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compared with 2 per cent or 3 per cent for its peer group [and was] growing this part of its business two or three times faster than its competition," he says.

Getting creative

These bright spots aside, equity income investors may have to get creative, and one obvious alternative is investment trusts.

The AIC's communications director Annabel Brodie-Smith says: "A big advantage for trusts over funds is their ability to hold cash reserves, so many are well prepared for this."

Research from Investec suggests income-yielding trusts could continue to pay dividends from reserves for another year, even if portfolio income falls 30 per cent, with eight trusts able to do so for two years. Top names include City of London and Merchants – both

Research from Investec suggests income-yielding trusts could continue to pay increased dividends from reserves for another year even if portfolio income falls 30 per cent

AIC Dividend Heroes, classed as those that have increased payments for at least 20 years in a row.

Many investors may also find themselves looking beyond equities for income and towards the bond universe. However, with enormous levels of quantitative easing turning developed market government bond yields negative in real terms, and

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higher-grade corporate bonds not paying what they used to, pickings are slim. To manage this, Rathbones' multi-asset manager Will Mcintosh-Whyte is combining lower income, higher growth equities with a slug of racier high yield bonds.

"Junk bonds are high yield bonds in the good times," he says. "Now you are being paid to take that risk, so we have dipped our toe into some fallen angels that have fallen into non-investment grade status and are now being supported by the Fed."

Another multi-asset manager, Stephen Crewe at Fulcrum Asset Management, is topping up his income by selling options, which account for around 2 percentage points of the Fulcrum Income fund's 4.5 per cent yield. He says: "We employ a variant of call writing that controls for changes in the level of the equity market and thereby helps to maintain some portfolio exposure to sharp rallies."

Beyond main markets

As other equity markets mature, now may be the time to look towards the developing world for income. In its latest dividend whitepaper, Fidelity points to China as a strong contender, highlighting pressure from the state to increase payments to shareholders.

> **"Many investors, such as my 88-year-old mother, rely on income payments, so it is important that fund managers continue to deliver dividends"**

"Asian dividend stocks have outperformed the broader region after previous sell-offs, and in greater China, many big companies were steady dividend payers through previous rounds of market turbulence," it says.

It is likely things will get worse for income-seekers in the developed world before they get better; not least, says Sanlam's head of fixed income Peter Doherty, as "support from governments comes with a hefty price tag".

Meanwhile, despite the frequent outcry about the amount of dividends paid to shareholders, Geffen notes these payments support one of the most vulnerable sections of society.

"Many investors, such as my 88-year-old mother, rely on income payments, so it is important that fund managers continue to deliver dividends," he says.

In the post-coronavirus world, diversification will be more important than ever. And with the main developed markets becoming less and less attractive, investors will need to rethink the old rules. ●

This is one of the few equity funds in the IA universe that has managed to eke out a positive return this year

Baillie Gifford China

Even though the coronavirus originated in China, the country has held up well from an investment perspective this year, with the MSCI China index broadly flat.

It was the swift response from the government and reassurance from president Xi Jinping that allowed the domestic economy to get back on its feet so quickly, according to Mike Gush, co-manager of the Baillie Gifford China fund.

"The extreme measures China took have suppressed the virus and allowed businesses to take the next step – opening offices," he said.

Baillie Gifford China aims to outperform the MSCI China All Shares index by at least 2 percentage points per annum over rolling five-year periods. It has consistently beaten this target since launch, outperforming the benchmark and its IA China/Greater China sector average over one, three, five and 10 years. It has even managed to eke out a positive return so far in 2020.

However, the fund has evolved significantly over this time and last year its name was changed from Baillie Gifford Greater China.

"The ethos of the fund has always been to capture the Chinese growth opportunity in its broadest sense, including the technology and financial centres of Taiwan and Hong Kong," explained Gush and co-manager Sophie Earnshaw.

"Given the staggering development in China over the past decade, and the significant opening up of the domestic A share market, we believe that the time is right to realign our investment universe. Going forward we will be investing only in Chinese companies and will change the fund's name.

"We rejoice in the progress China has made allowing us to make this change and are excited as ever about the prospects for one of the most important investment themes of our generation."

The managers note the Chinese economy is still transitioning, shifting from a focus on low-value exports, high investment and infrastructure spending, to domestic consumption and services. This has resulted in rising wealth and an insatiable demand for luxury goods.

As a result, the fund has approximately 60 per cent invested in consumer products, telecoms and technology. Its top-10 holdings include tech giants Alibaba and Tencent.

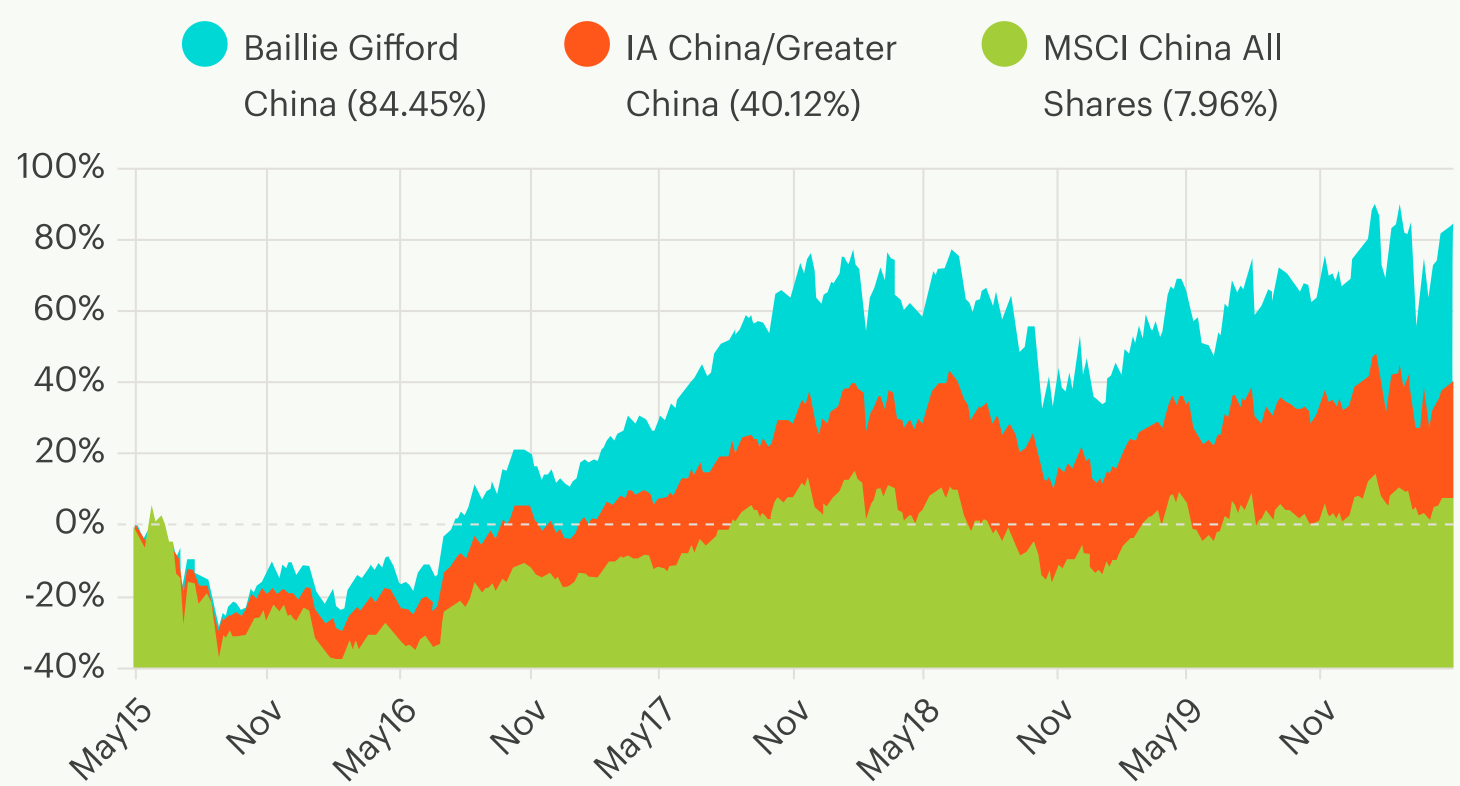
Baillie Gifford China has made 84.45 per cent over the past five years, compared with gains of 40.12 per cent from its sector and 7.96 per cent from its benchmark. ●

FACT BOX

MANAGERS: **Mike Gush & Sophie Earnshaw** / LAUNCHED: **19/11/2008** / FUND SIZE: **£150m** / OCF: **0.78%**

CROWN RATING

PERFORMANCE OF FUND VS SECTOR AND INDEX OVER 5YRS



Source: FE Analytics

Manager Abbie Llewellyn-Waters says this fund's strong showing in the coronavirus-related sell-off bodes well for its long-term prospects

Jupiter Global Sustainable Equities

Investors who want to tap into a long-term growth theme in the early accumulation stage of their pension may wish to consider Jupiter Global Sustainable Equities.

The fund opened up for retail investors last month, having been launched for their institutional equivalents in April 2018.

Manager Abbie Llewellyn-Waters said the fund's strong showing in the coronavirus-related sell-off bodes well for its long-term prospects.

"Sustainability is a long-term structural opportunity that has been hurtled to the fore in this tragic chapter we find ourselves in," she explained.

"To deliver a more regenerative form of capitalism, the market needs to broaden its focus across three core stakeholders: planet, people and profit. Companies that deliver positive outcomes for these core stakeholders are better positioned to survive and thrive over the long term.

"Transitioning to a more sustainable world is the key priority for our fund and against this unprecedented backdrop, we are encouraged we have provided resilience for investors."

The portfolio contains 35 to 50 companies that are leading the transition to a more sustainable world. Jupiter's ESG considerations are embedded in its process.

However, Llewellyn-Waters said it is important to note that ESG and sustainability are not the same thing.

"ESG is an input and sustainability is the output," she added. "We refer to sustainability in economic, environmental and societal terms. We consider all three pillars key to delivering company stability and performance over the long term.

"For example, if a company does not have the financial sustainability to support itself, it won't matter how good that company is at recycling its waste."

Some investors may be surprised to see three fintech companies – Visa, PayPal and Jack Henry & Associates – in a fund that claims to be focused on sustainability. However Llewellyn-Waters pointed out this plays into the financial inclusion theme.

"Digitalisation is at the core of enabling social mobility through the digital provision of basic financial services," she said. "It enables cost savings; much greater personal security than physical cash; a wider range of financial services; women's economic independence via greater financial control; and finally, socially inclusive growth."

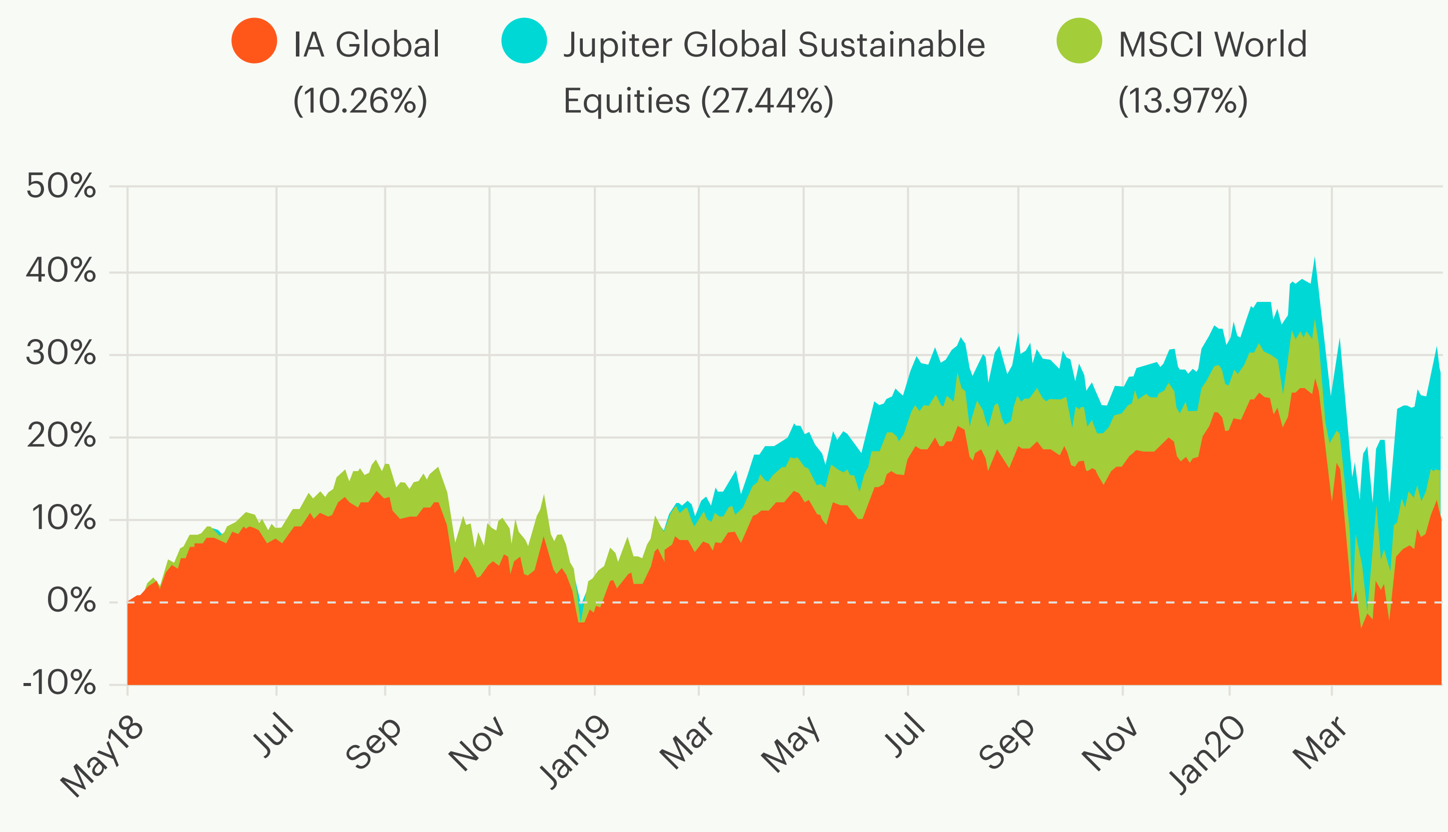
The fund is up 27.44 per cent since launch compared with 10.26 per cent from its IA Global sector and 13.97 per cent from the MSCI World index. ●

FACT BOX

MANAGER: **Abbie Llewellyn-Waters** / LAUNCHED: **09/04/2018** / FUND SIZE: **£32m** / OCF: **0.71%**

CROWN RATING N/A

PERFORMANCE OF FUND VS SECTOR AND INDEX SINCE LAUNCH



Source: FE Analytics

Co-manager Andrew Ness says one way to protect your portfolio against the recession is to hold companies that survived the last one

Templeton Emerging Markets

One of many misconceptions about emerging markets is that they are among the first sectors to fall during a global economic crisis. This is one of the fallacies Andrew Ness hopes to challenge as co-manager of the Templeton Emerging Markets Investment Trust.

As the world faces one of the most severe recessions ever seen, Ness said one way to manage this situation is to invest in companies that have already experienced and survived an economic crisis.

The manager said that two emerging market banks in particular are good examples of companies that have been through a recession in the past, emerging on the other side in a stronger position: ICICI in India and Banco Bradesco in Brazil.

For example, while ICICI is down almost 50 per cent from its February peak, he said: "Given the profitability of the business and the coverage of its assets, it can absorb substantial growth in non-performing loans over the next six to 12 months without having to raise additional equity."

It is a similar story for Banco Bradesco. In addition to its similarities with ICICI Bank– high profitability and a robust balance sheet – Ness said Brazil went through a recession as recently as 2014, which should have prepared it for the current one.

The 2014 financial crisis in Brazil occurred alongside a political crisis, which eventually saw then president Dilma Rousseff impeached. The economic crisis was largely attributed to the government's mishandling of policies aimed at stimulating the Brazilian economy, combined with a fall in external demand for exports.

Ness said that because Brazil's banks have been de-risking balance sheets over the past four years, they entered the current crisis from a fairly defensive starting point.

The manager warned this isn't to say that businesses in emerging markets won't suffer in the short term and he has downgraded earnings expectations for both banks. But he believes they will come back stronger after the pandemic.

Templeton Emerging Markets is up 33.63 per cent over the past five years compared with 19.96 per cent from its MSCI Emerging Markets benchmark and a loss of 1.27 per cent from its IT Global Emerging Markets sector.

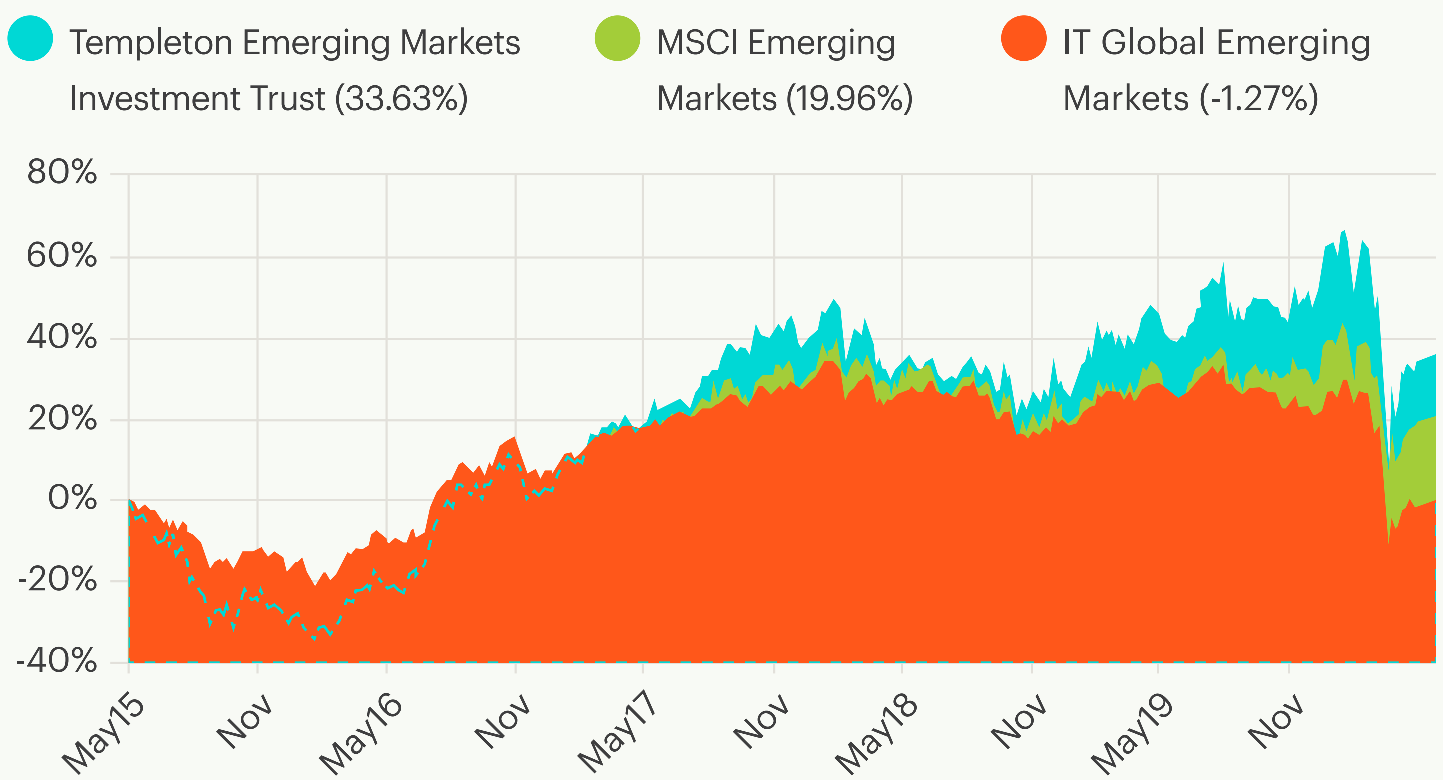
It is trading at a 12.3 per cent discount compared with 10.81 and 11.61 per cent from its one- and three-year averages. ●

FACT BOX

MANAGERS: **Andrew Ness & Chetan Sehgal** / LAUNCHED: **12/06/1989** / DISCOUNT/PREMIUM: **-12.3%** / OCF: **1.03%**

CROWN RATING

PERFORMANCE OF TRUST VS SECTOR AND INDEX OVER 5YRS



Source: FE Analytics

After the boom years of the commodities supercycle, trusts focused on natural resources have dwindled over the past decade. **Adam Lewis** asks if they are due a rebound

On the rocks

Investors in the IT Commodities & Natural Resources sector enjoyed a strong start to the millennium, with the average trust making 487.42 per cent between 2000 and 2010 while the MSCI World index struggled to eke out a return. However, the next 10 years saw a role reversal – as the global market set off on the longest bull run in history, the investment trust sector lost 46.48 per cent.

So what can investors expect from the next 10 years?

Paul Angell, investment research analyst at Square Mile, says a fall of some 45 per cent in the S&P GSCI (a broad commodity index) in the first four months of 2020 shows this is not an area of the market for unsophisticated investors.

However, he adds that the return stream of particular commodities provides diversification benefits, as the supply and demand equation can differ substantially from the broader economic picture which affects equity market valuations.

"Each commodity should of course be considered on its own merit, with gold – the most traditional 'safe haven' asset – offering a very different return profile to cyclical commodities such as oil, as has clearly been the evidence over the first four months of 2020," he says.

"Over this time, the price of gold was up about 17 per cent, while Brent Crude oil was down around 62 per cent."

The return stream of particular commodities provides diversification benefits, as the supply and demand equation can differ substantially from the broader economic picture

Gold standard

Given that gold performs so differently to other commodities, John Husselbee, head of multi asset at Liontrust, treats it as a separate asset class altogether.

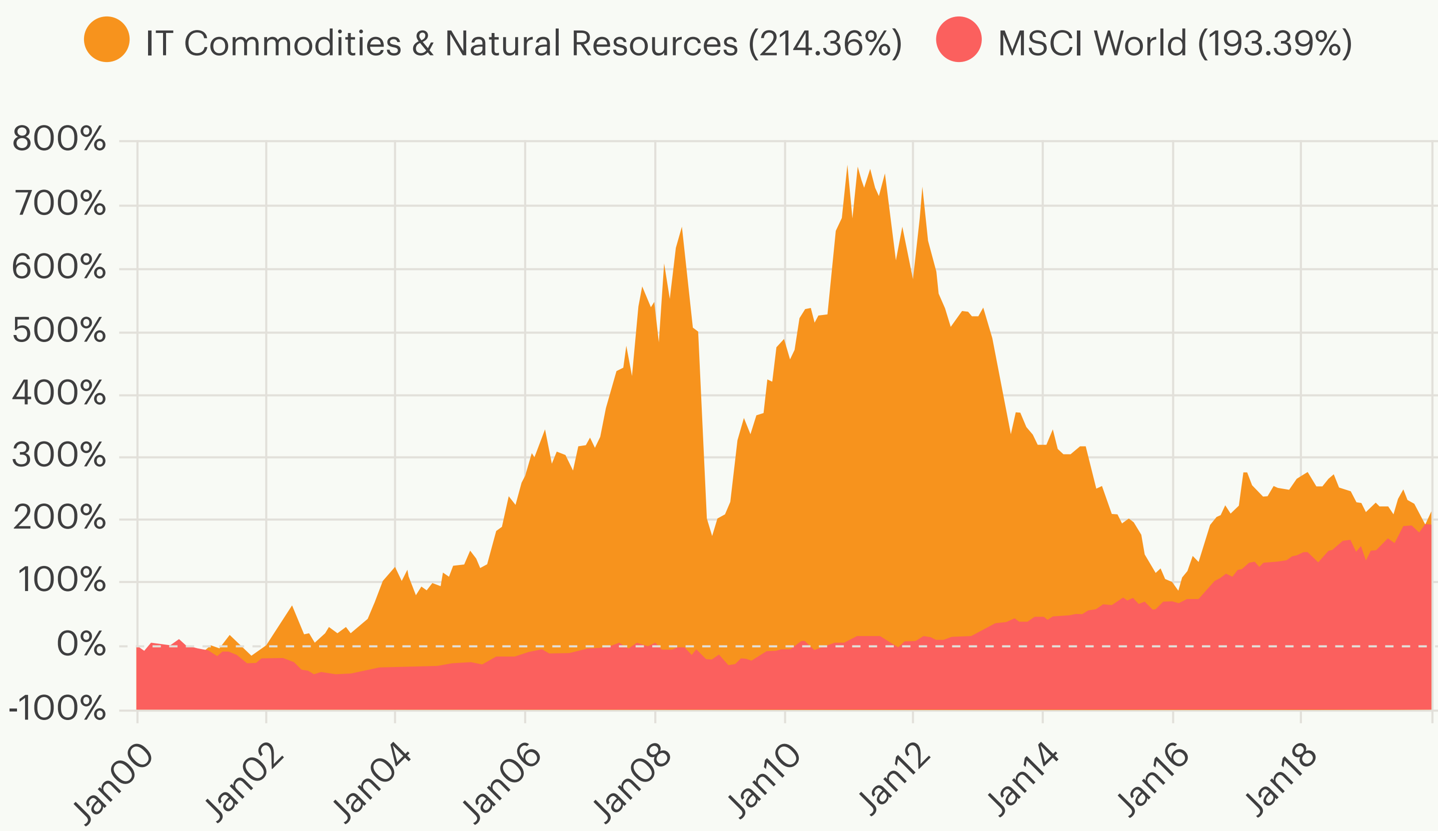
He separates alternatives into four categories – property, absolute return, hedge funds and commodities – yet gold does not sit in the latter.

"For me, gold sits in the hedge funds category," he says. "Hedge funds can hedge things to produce different types of growth, to protect capital, to produce a different type of income and to hedge against inflation and currencies. This is where gold sits. Given where we are in the interest rate cycle, with inflation set to rise and negative yields across the globe, now may be a good time to add gold."

> **"Given where we are in the interest rate cycle, with inflation set to rise and negative yields across the globe, now may be a good time to add gold"**

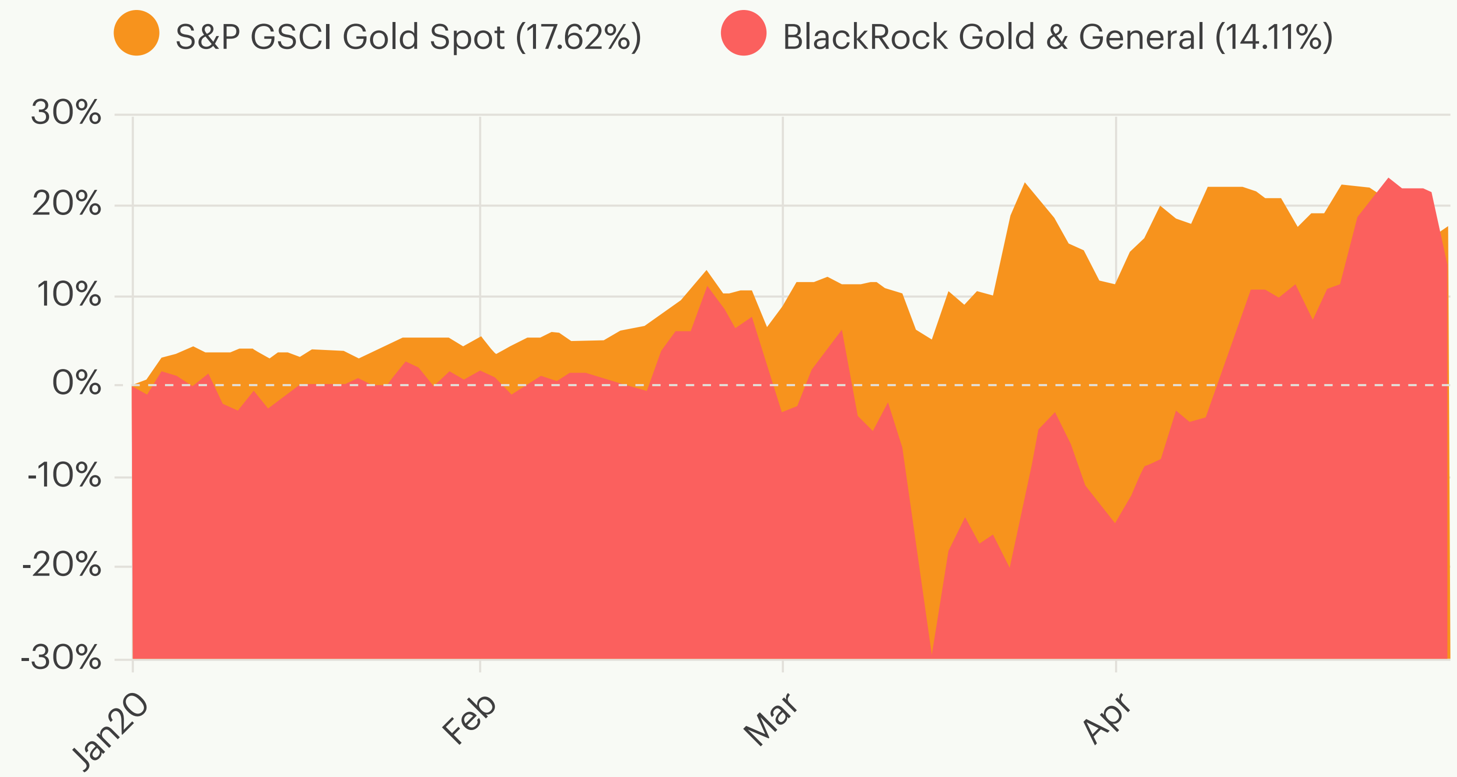
When it comes to more general commodities, Husselbee says the asset class tends to feature in his multi-asset funds at the higher end of the risk profiles, with exposure limited to no more than 5 per cent. However, having been underweight going into the recent crisis, he is now looking to move this position to a more neutral stance.

PERFORMANCE OF SECTOR VS INDEX OVER 20YRS



Source: FE Analytics

PERFORMANCE OF FUND VS INDEX IN 2020



Source: FE Analytics

> **"The question is, are you brave enough to throw all your eggs in one basket and back the energy and oil trade, or will you be diversified and go for the basket of commodities?"**

"As an asset class per se, we believe commodities have a return, risk and correlation profile that is attractive in a multi-asset portfolio," he says. "Clearly, when you have the demand and supply shocks that we have seen recently, it is not good for commodities in the short term; however it has made them very cheap. The question is, are you brave enough to throw all your eggs in one basket and back the energy and oil trade, or will you be diversified and go for the basket of commodities?"

Husselbee has gone down the basket route for his commodities

exposure and owns the WisdomTree Broad Commodities ETC. Because he runs a fund of funds, he can own any listed instrument, but warns the options are more limited for managed and model portfolio services.

"There are few platforms that allow clients to access listed securities, such as closed-ended funds and ETFs," he says. "If you are on a platform that only provides exposure to open-ended funds you will be very limited in your exposure to commodities. This is because what you will end up with is exposure to commodities as equities, such as producers. Therefore you start to unwind the benefits of risk, return and correlation."

Angell agrees, noting the returns of open-ended commodity funds will vary significantly from the underlying commodity prices. For example, while the BlackRock Gold & General fund and a gold ETC are both up about 15 per cent in the first four months of the year, "the journey has been very different for the two strategies".

"If you are on a platform that only provides exposure to open-ended funds you will be very limited in your exposure to commodities"

"Exchange traded products give access to the futures market, which is fine if you want to have more of a trader's mentality and are expecting fairly short-term price moves"

James de Bunsen, multi-asset portfolio manager at Janus Henderson, only holds gold and a long/short commodity futures strategy in his funds. He argues that beyond precious metals, commodities are "troublesome" to access in an efficient way.

"Exchange traded products give access to the futures market, which is fine if you have more of a trader's mentality and are expecting short-term price moves," he says.

"However, they are not great for longer-term holding periods due to the inherent 'roll' costs of selling the front month future and rolling into the next contract."

De Bunsen also stresses it is difficult to make money in commodities unless there is a persistent bull market in which price rises overwhelm costs. He says the dearth of commodity hedge funds today is

"Real interest rates can be a headwind for gold if they are high and rising, but this seems to be a low risk at present"

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testament to this. Yet he still believes gold "pretty much always" merits a place in a diversified portfolio.

"The staggering levels of QE and other measures we have seen in recent weeks are bringing back concerns about the debasement of fiat currencies, while gold is coming out of the ground slowly given the depressed valuations of miners," he says.

"Central banks and sovereign wealth funds also appear to be big buyers as concerns mount about the huge supply of government debt. Real interest rates can be a headwind for gold if they are high and rising, but this seems to be a low risk at present."

Wood for the trees

Olly Hughes, managing director of forestry at Gresham House, notes that outside of gold and other precious metals, commercial forestry assets also provide returns that are largely uncorrelated to stocks and bonds, with correspondingly low volatility.

"Due to the growing demand and rising timber prices, UK forestry investments have outperformed all other classes over a 25-year period, delivering an annualised return of 9.2 per cent," Hughes says.

"It takes a tree about 40 years to reach full maturity. However, unlike most agricultural crops, trees can be left in the ground for about 15 years without impacting the quality of the end product. This means the timber harvest can be timed to match demand and higher prices, without losing output. This flexibility ensures consistency in long-term returns."•

PERFORMANCE OF FUNDS VS SECTOR AND INDEX

Name	1yr (%)	3yr (%)	5yr (%)	10yr (%)
M&G Global Dividend	-8.38	8.41	37.64	124.86
BlackRock World Mining	-5.49	11.39	35.46	-17.19
L&G Commodity Index	-15.12	N/A	N/A	N/A
IT Commodities & Natural Resources	-20.33	-25.42	-14.08	-59.35
MSCI World	-0.78	18.7	54.91	154.34

Source: FE Analytics

The closed-ended option:
BlackRock World Mining

The BlackRock World Mining trust adopts a flexible approach to investing across base and precious metals. While performance slipped at the start of the year, Emma Bird, research analyst at Winterflood Investment Trusts, notes the portfolio's increased exposure to gold should act as a diversifier. "Another advantage offered by the fund is the diversification of income stream across dividends, option premia, fixed income and royalties," she explains. "This should help to protect the fund's revenues in the event of underlying dividend cuts by mining companies."

For general exposure:
M&G Global Dividend

"Rather than investing directly into a sub-sector such as commodities, investors could opt for a global equity manager, who is able to allocate capital to well-run companies at times when they believe the economic conditions warrant," says Angell. "For example, the M&G Global Dividend fund has had around 20 per cent exposure to the energy and materials sectors in recent years, including Gibson Energy (oil services) and Methanex (methanol supply/distribution)." The £1.7bn fund has been managed by Stuart Rhodes since launch in 2008. It is up 124.86 per cent over the past decade and is currently yielding 2.66 per cent.

A passive choice:
L&G Commodity Index

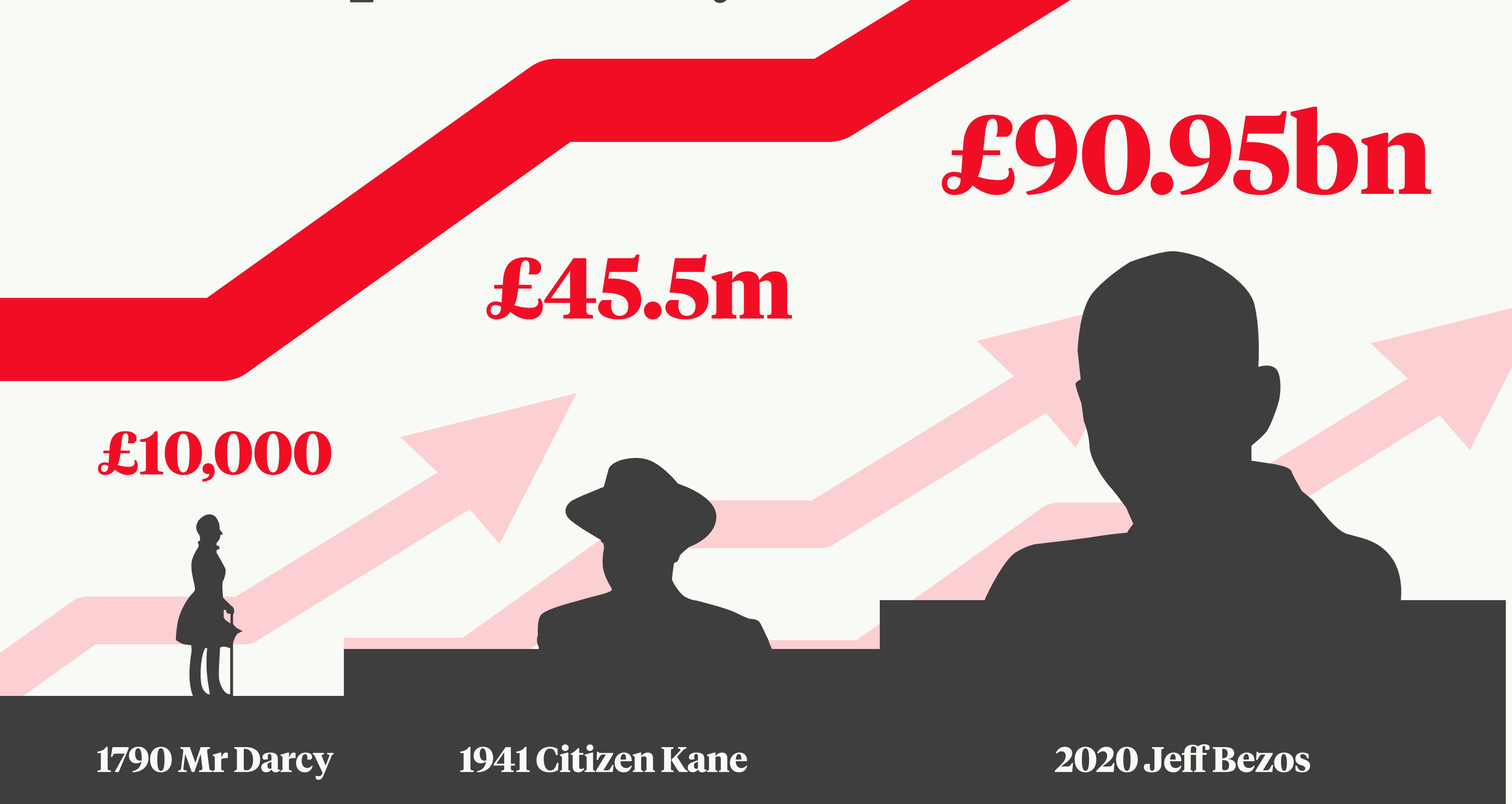
Justin Onuekwusi, head of retail multi-asset funds at LGIM, notes trackers that invest directly in commodity indices have had a bad press of late. While he is currently neutrally invested, he believes commodities can play an important role over the long term and uses the L&G Commodity Index fund – which aims to track the Bloomberg Roll Select Commodity Index. "Trackers that don't invest in near-term futures contracts have not been impacted by the negative near-term oil prices," he says. "By investing outside energy markets in a range of commodities, the return streams are diversified across many sources."

Crunching the biggest trends down into figures

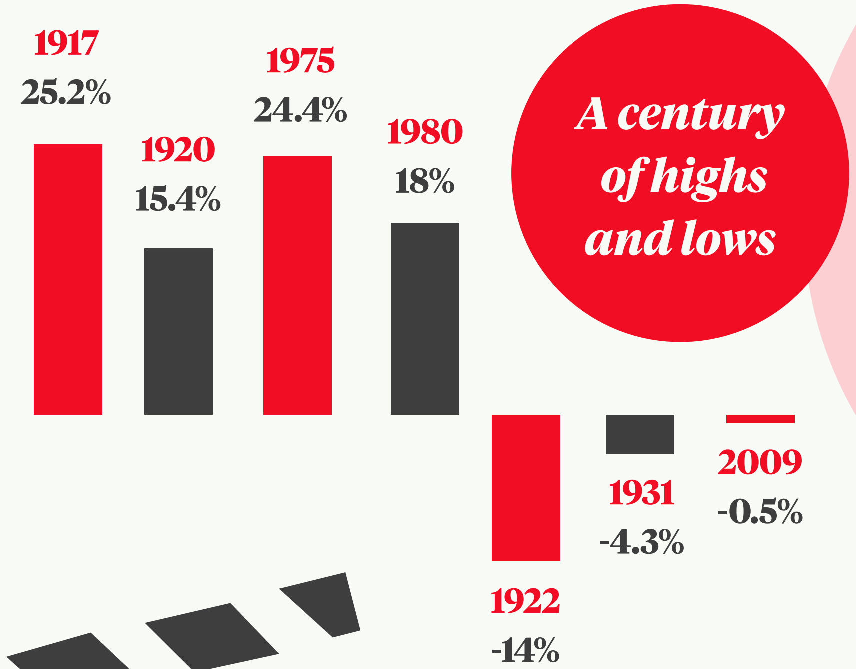
Inflation: The silent killer

Inflation in the UK averaged **13.7%** a year in the **1970s,** driven partly by a surge in the oil price. You would have needed **£3,607.39** in **1980** to pay for goods worth **£1,000** in **1970.** This meant your investments would have needed to return **260.74%** to break even

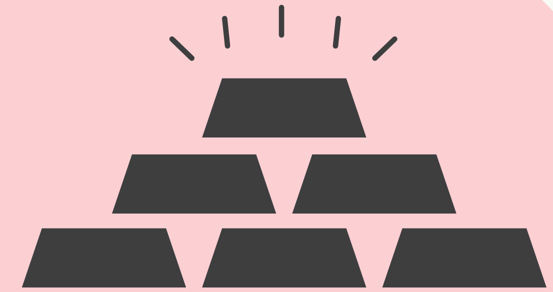
Over the years, fortunes have risen exponentially



Inflation plotline



The inflation hedge

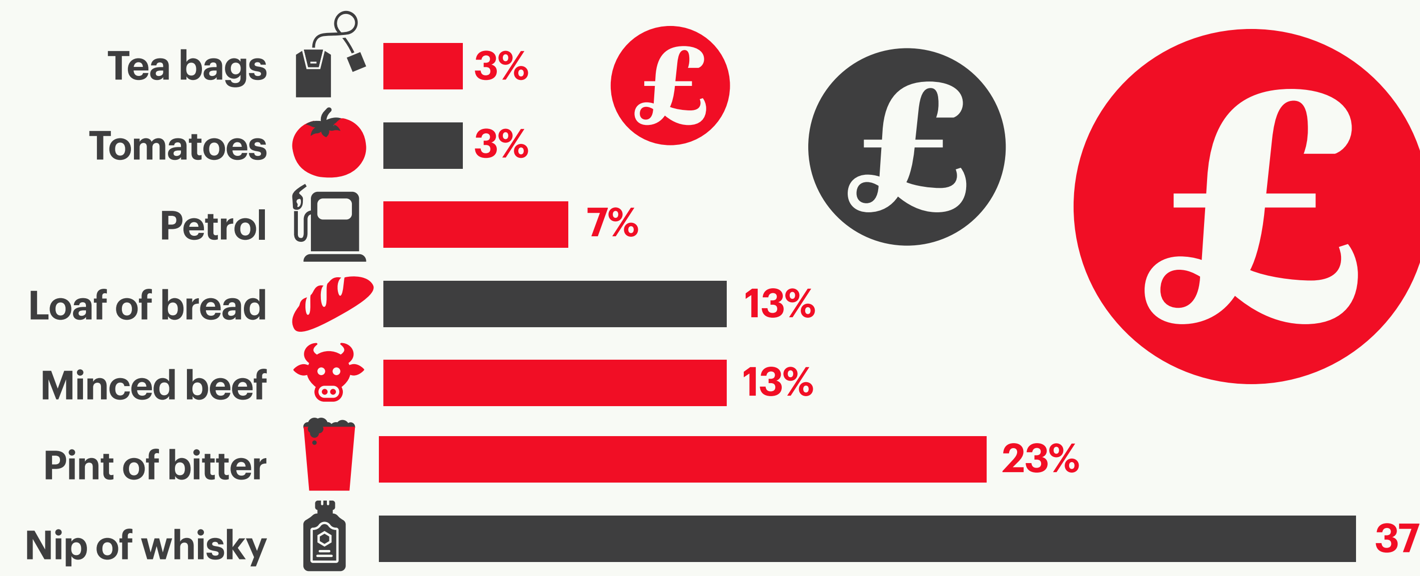


According to the Old Testament, an ounce of gold bought **350 loaves of bread** during the reign of King Nebuchadnezzar in 562BC. At today's prices, an ounce of gold would buy **1,308 white sliced loaves**

Average cinema ticket

5p in 1941 / £7.11 in 2020

Price increases over 10 years



John Blowers says that unless the industry provides more assistance, giving the non-financially literate control of their pension when they retire is a recipe for disaster

The price of freedom

It has been more than six years since the radical overhaul of our pension system, now referred to as pension freedoms.

And while it has been a boon for many retirees, it has also caused significant problems, particularly for the less affluent and non-financially literate.

After all this time, I would have expected the industry to have solved the dilemma of how we access and deploy our pension pots when we retire.

There is a lack of assistance from commercial institutions and a smattering of help from the likes of the Pensions Advisory Service and Money Advice Service (recently merged into the Money and Pensions Service).

Essentially, if you don't pay for the services of a financial adviser, you're on your own.

This is a new problem for us Brits. In the past, if you had a defined contribution scheme, you would be dispatched by your pension provider at retirement to purchase an annuity. You were offered an income for life in exchange for your entire pension pot which, coupled with the state pension, was all you had to live on. Not great, but simple.

Now defined contribution schemes are effectively pots of money that do not come with any promises. What you save up and invest is what

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Now defined contribution schemes are effectively pots of money that do not come with any promises. What you save up and invest is what you receive at retirement

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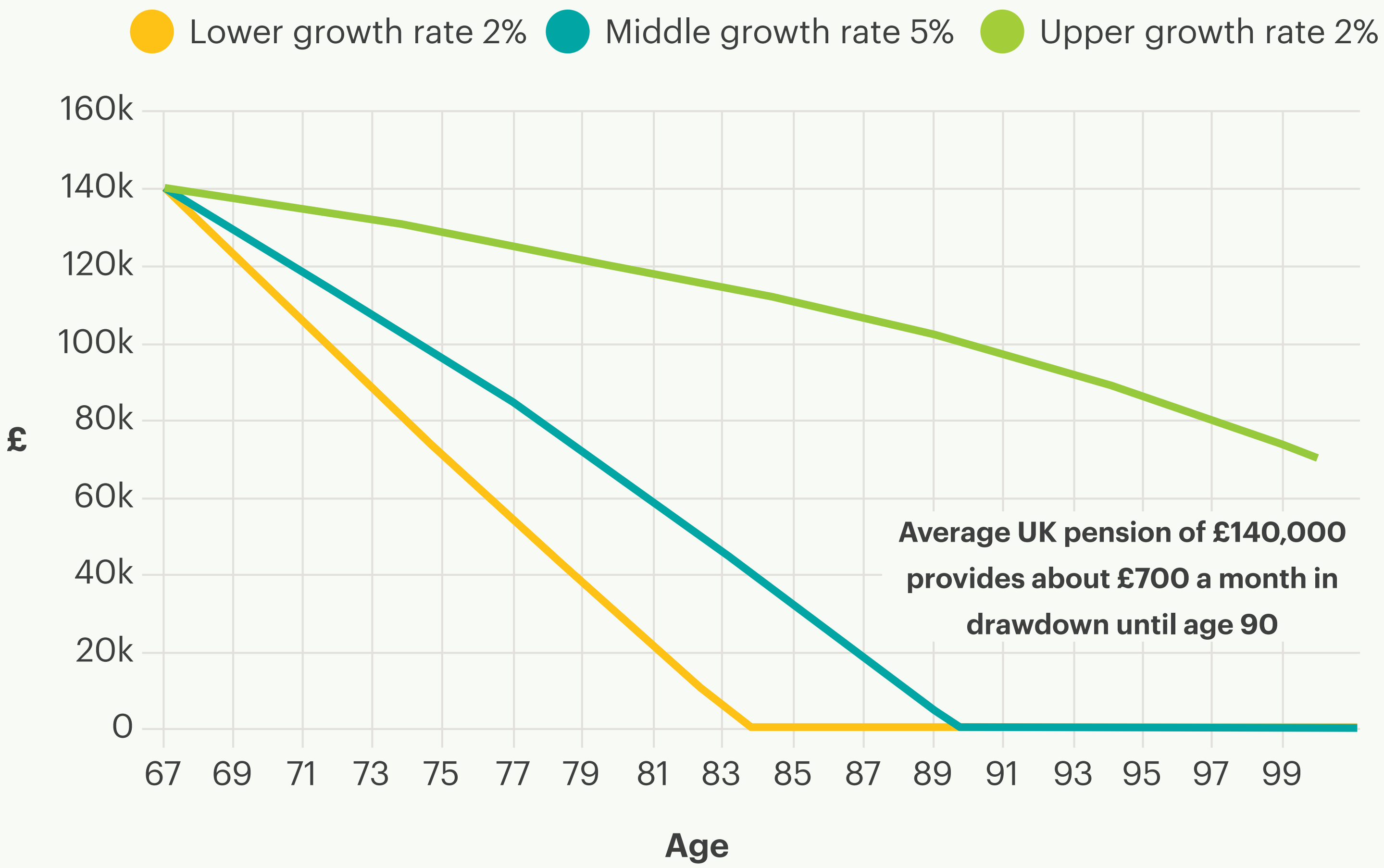
you receive at retirement. If you have put a lot in over the years, the chances are you will have a decent retirement. If you had better things to spend your money on, or couldn't afford the contributions, then you may end up with an amount that is insufficient to live on. The average pension pot in the UK is £140,000 at retirement, which would provide an additional £700 per month and would last until the age of 90*.

This £700 can be added to the state pension, which is also around £700 a month, producing an income of £1,400 a month, before tax.

On your head be it

I've seen worse outcomes for retirees, but if you are used to the average UK salary of £36,611, this may come as a shock.

IMPACT ON AVERAGE UK PENSION POT OF WITHDRAWING £700 A MONTH



*Drawdown amount reflects keeping money invested and assuming 3 average growth rates. We selected 5% to model this example. Platform charges are 0.37%, inflation is 2.5% and drawdown rises by 2% p.a.

Three retirement "crocodile pits"

1

The run-up to retirement (55+) – What are your goals and have you saved enough in a tax efficient way to achieve them? Could you do more to alter an unsatisfactory outcome?

2

At retirement – What is the plan? Are you going to go for flexible drawdown? Are you in the right vehicle (a SIPP, for example)? How are you going to convert a portfolio into a monthly income and what should you invest in?

3

In retirement – Are my plans (or those of my adviser) working and are they delivering the lifestyle I dreamed about? What happens if there's a crash or a drastic change in circumstances?

One of the biggest travesties of the financial services industry is that although there is plenty of help to get your money into investments, there is almost none when you want it back

More worrying is that this scenario relies on you getting hold of your pension pot when you stop working, investing it in a portfolio of assets, wrapping it in a SIPP with flexible drawdown access, then managing these investments and selling them down if you want to take out some cash.

Professional help

Surely, this is beyond the abilities of all but the most experienced DIY investors?

One of the biggest travesties of the financial services industry is that although there is plenty of help to get your money into investments, there is almost none when you want it back.

Although I'm a staunch advocate of managing your own money, when it comes to retirement, it is difficult not to conclude that a professional financial adviser might be a good idea.

A good financial adviser will

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provide a great deal of knowledge, experience and comfort at a time when you have probably never had more money and it has never been more important to you. What you do with it is critical and however comfortable you may be when your portfolio is growing, at retirement it is a different game as your salary tap will be turned off for good.

Supply and demand

So, everyone should have a financial adviser when they are approaching retirement, right?

Unfortunately, it is not that simple and for the majority of the population, it really isn't their choice anyway. There are two problems with financial advisers: they are relatively expensive and there aren't nearly enough of them to go round.

With all supply and demand imbalances, the limited number of financial advisers means those that are available prefer to work with clients who have the most money. As a result – and the actual numbers are variable and controversial – you may find it difficult to find a financial adviser unless you have more than £250,000 in your portfolio.

Who's helping people who can't afford advice?

There are signs that auto-enrolment firms such as NEST, which serves millions of people with the smallest pension pots, are now beginning to

...

What do I do with retirement looming?

If you don't have an adviser but have managed your own pension pot (maybe alongside a workplace scheme), then the decade before retirement is a good time to start asking the following questions.

Have I saved enough?

Dig out the statements from your individual pensions and tot up the valuations. Then, consider consolidating them into one pot (a SIPP on a platform).

As a rule of thumb, you should aim for a pot of money that will last from 65 to 90 years old. Check if you are in some sort of lifestyle or target-date fund. These funds de-risk your investments as you get closer to retirement and aim to generate income post-retirement. At this moment in particular – near the bottom of a crash – low-risk and income investments will not recover anywhere near as quickly as a well-diversified higher-risk portfolio. Remember, now we are living for longer, we have a correspondingly greater period of time where higher-risk investments can be carried – well into retirement.

This allows your money to grow, stretching out your retirement pot to last for longer.

How much do I need?

Many people forget to ask this question early enough in their retirement strategy. It may well be you plan to downsize, move off-grid and grow your own vegetables. Consequently your income requirements will be low.

If, however, you intend to keep the yacht and second home in Cap Ferrat, you will require a colossal pension to maintain these assets.

The chances are you will be somewhere in between these points. Try to cost your desired lifestyle using an online retirement planner to see if you will be able to hit your target amount.

Typically, a £250,000 pot at retirement funds a modest existence, £500,000 offers a little more comfort and occasional exuberance and £1m or more is needed to maintain a carefree "pre-retirement" lifestyle.

What other assets do I have?

Take a holistic view of your wealth and imagine what you will need in retirement. Do you have a large house, cars, land, art and so on you could sell if needed? But beware. The current circumstances serve as a reminder these types of assets can be highly illiquid. Try selling a classic car or a house during the lockdown at anywhere near its real value. In addition, we have no idea if our assets will ever command the same value as they did prior to the pandemic.

What would happen if I lost my job tomorrow?

Many people use the last few years of their working lives to pile money into their pension. But what if you stopped working tomorrow? The pandemic could radically reshape the economy and many people have already lost their jobs. How secure is yours given the economy may be so badly damaged it requires a total reboot?

It is worth running a Plan B, considering what kind of lifestyle you could construct and what compromises you would need to make if you retired tomorrow.

Do I go crazy at 55?

At age 55, you can access your pension and no doubt you are aware that you can withdraw 25 per cent tax-free. Don't! Well don't unless there's a pressing need to use that cash for something important. That 25 per cent can continue to grow for another 12 years to the point you retire and then even after that, funding years of extra income.

work on what they call decumulation strategies for members heading for retirement. All auto-enrolment schemes have both default and optional plans to get you investing, but when it comes to getting your money out it all goes a bit Heath Robinson, with a bunch of half-baked options such as taking the cash, using a default withdrawal plan or buying an annuity. This is tough for people who know little about the subject and feel happiest taking the cash.

With other pensions, things get worse. Auto-enrolment – being relatively new – has at least made an effort to provide some post-pension freedom options, but other defined contribution employer schemes tend to leave it to the retiree to work out what to do with their pot.

Platforms have plenty of tools to help people saving for retirement within a SIPP and most of these tend to offer a flexible drawdown facility, but there is little guidance on how to budget out your pension pot.

The Financial Conduct Authority wants all pension providers to develop what it calls investment pathways to improve outcomes for retirees, but this has been delayed by the coronavirus pandemic. At least the industry knows it has to do something soon.

Platforms have plenty of tools to help people saving for retirement in a SIPP and most of these tend to offer a flexible drawdown facility, but there is little guidance on how to budget out your pension pot

What next?

Unless you have already retired, help is on the way. The industry is finally endeavouring to help the large swathe of the British public who don't have an adviser through the minefield of what to do with their pension. It hasn't solved our problems yet, but give it 24 months and there will be the products and guidance needed to make our golden years a little more lustrous.

Until then, make sensible investments in a diversified portfolio and don't de-risk too early, nor start spending your pension at 55.

Finally, make plans. Prepare for good and bad outcomes and devise ways in which you can have a rewarding lifestyle whatever life throws at you. We have just had a glimpse of the ways in which life can take unexpected twists and turns and we need to be ready to deal with them. ●

Fidelity UK Opportunities' **Leigh Himsworth** names three stocks that offer compelling opportunities in the renewable energy space

Green zone

I **am** always striving to seek out "tomorrow's companies" and am less likely to invest in industries or stocks that may be on the wane and face structural challenges such as those in the tobacco sector. This is not because I don't think they may offer value, but because I believe they are not companies for the future, and for me the stock market is ultimately about providing equity capital for companies to grow.

> **You need to be selective here as some valuations went through the roof after investors attempted to become more responsible**

One area where I am currently finding opportunities is in renewable energy. You need to be selective here as some valuations went through the roof after investors attempted to become more responsible and a substantial amount of capital rushed into the space.

The UK offers some great opportunities with world-leading technology. For instance, the fund has exposure to companies involved in using hydrogen for power and heat, recycling, measuring and analysing electricity usage and power stations moving from coal power to biomass. ●

ceres

Ceres Power makes fuel cells that efficiently turn gases such as hydrogen into clean energy. The key advantage of its Steel-Cell technology is that it is cheaper than the competition and operates at a lower temperature, allowing it to be used in a wider range of products. This helps to explain why joint ventures have been signed with the likes of Weichai in China, Bosch in Germany, Doosan in South Korea and Miura in Japan. The first two are so keen to work with Ceres that they each now own nearly 20 per cent of the company.

ITM POWER
Energy Storage | Clean Fuel

ITM Power makes electrolysers that transform energy – largely from renewable sources – into hydrogen. Renewable energy generation from wind and solar often takes place in remote areas, such as northern Scotland or large solar arrays in Texas. Electricity is generally difficult to store, but hydrogen isn't. Once the power is transformed into hydrogen it can easily be transported and then turned into power through a fuel cell, or put into gas networks for heating. German group Linde recently took a 20 per cent stake in the business.

smsplc®

Smart Metering Systems' meters help to get the most out of the electricity system. This is an easy business to model as once a meter is installed, the utility companies will simply pay a rental to SMS for 20-plus years. Further investment is unnecessary as units tend to be reliable, with few moving parts and limited user interaction, meaning free cash flow should be high. The returns are likely to have a low correlation to the economic cycle and the rest of the market, hence why the shares have performed well in the recent turmoil.

Sarasin & Partners' **Adil Alaoui** says four key drivers for energy storage convinced him to invest in this trust

Gresham House Energy Storage Fund

Renewable energy is now responsible for generating around 40 per cent of the UK's total electricity supply

A trust we recently bought is the Gresham House Energy Storage Fund, or GRID, which aims to capitalise on the transition to low-carbon electricity.

Renewable energy is now responsible for generating about 40 per cent of the UK's electricity supply. However, renewable energy sources such as solar and wind power are intermittent, as the amount of electricity generated depends on the weather. A reliable, secure energy supply is crucial. Renewable energy storage through batteries can address supply/demand imbalances. GRID trades in electricity via investments in a diversified portfolio of battery storage systems, capturing the increasing spread in power-price volatility and capitalising on these supply/demand imbalances.

Drivers

The investment case for GRID is propelled by four key drivers for energy storage.

First, demand for renewable energy is growing. In line with the Paris Climate Agreement, which sets out a framework for governments and businesses to keep temperature increases from global warming to 2°C and ideally 1.5°C, the decarbonisation of the UK's economy will drive increased adoption of renewable energy.

Second, the need for system stability is increasing. The National Grid is responsible for managing electricity supply and demand, and procuring services to ensure the UK has a reliable energy supply. It projects the UK's greater reliance on renewable energy will contribute to a more complex flow of electricity, requiring further services to balance supply and demand.

Peak practice

Third, the trust benefits from the upside to peak power prices. Downside volatility has fallen and while intraday highs have yet to increase, this is likely to change.

Finally, energy storage systems benefit from a favourable regulatory backdrop. In 2019, Ofgem confirmed batteries could avoid green levies, while the regulator's Targeted Charging Review will cut grid connection costs by 30 per cent from 2021.

As a closed-ended fund, GRID could be affected by secondary market activity. Yet we believe it is one of the most compelling alternative picks out there. GRID is the UK's largest utility-scale energy storage trust and plans to increase its total capacity during 2020.

The trust has not suffered a meaningful impact from Covid-19. Trading continues remotely and its revenues are driven by energy price volatility which depends on weather and is unaffected by overall power demand. As thematic and responsible investors, we also like the fact GRID's projects enable the transition to a low-carbon economy. Climate change is one of five mega themes we expect to have a significant impact on the world in the years to come. •

***Adil Alaoui** is co-manager of Sarasin Fund of Funds – Global Diversified Growth*


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