

TRANSCRIPT: EPISODE 7

6 June 2019 (pre-recorded 30 Apr 2019)

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[INTRODUCTION]

Sam Slator (SS): I'm Sam Slator from FundCalibre and I'm joined today by Will Argent, investment advisor to the VT Gravis UK Infrastructure Income fund. Hi Will.

Will Argent (WA): Hi Sam.

[INTERVIEW]

[0:12]

SS: So could you explain to us how you would explain your own job to somebody outside of financial services?

WA: I manage an investment fund, which invests in a portfolio of publicly quoted companies and it has the objective of delivering a particular investment outcome. At Gravis we specialise in the infrastructure sector and the portfolios I manage are similarly focused on that particular sector. My day to day role involves company analysis, stock selection, constructing the portfolio as well as ensuring ongoing communication with investors.

[0:51]

SS: What type of infrastructure does the fund actually invest in?

WA: The fund buys shares in companies that operate in the infrastructure sector, as a result the portfolio is exposed to a wide range of critical, social and economic infrastructure assets which would include things like schools, hospitals, healthcare facilities, governmental buildings, transport networks, communications networks, and things like utilities.

SS: And you actually have quite a lot invested in solar and wind energy at the moment, why is this?

TRANSCRIPT: EPISODE 7

WA: That's right; renewable energy, that includes wind and solar, has accounted for a large proportion of the fund over time. It's been a major driver of attractive returns and it's a big theme for us.

We invest in companies who own renewable energy assets, these are things like wind farms and solar parks. Of course, an element of the income streams will be derived from the sale of energy into the market but the majority of cashflows received from these companies are still in the form subsidy payments, which are ultimately guaranteed by the government and were introduced to stimulate the build out of renewable energy capacity, which is all part of an agenda to decarbonise the economy.

In addition to the governmental guarantees, those subsidy payments are very long term in nature and have an adjustment annually for inflation. This combination of factors is really attractive to us.

[2:30]

SS: Can you explain to us why infrastructure investments tend to be inflation proof, please?

WA: Many infrastructure projects and assets will attract cashflows that are automatically adjusted for inflationary trends over time. The very long nature of infrastructure projects means there's a real need to incentivise and provide an element of security for the private sector to commit to investing in them and undertaking the development of such assets.

I think, inflation proof may be a little bit strong but there's certainly a significant element of inflation protection afforded by infrastructure investments.

[3:12]

SS: One of the attractions of infrastructure and indeed this fund is that it pays a high yield an income of around 5% so this will obviously be very attractive to income investors but why should perhaps a growth investor consider this fund as well?

WA: You're right, the strategy is focused on generating income for investors at around 5% but it's also focused on preserving capital in real terms, which means growing capital at a rate that offsets inflation. Of course, investors don't have to take that income from this fund and they can instead buy accumulation shares, which would reinvest the income rather than paying it out, and compound returns over time. Accumulation units are likely to be of greater interest to growth orientated investors who aren't interested in taking income.

TRANSCRIPT: EPISODE 7

The rate of inflation is not constant which means that element of our total return objective will fluctuate but it's reasonable to assume over time that our total return target will be around 8% per annum. Of course any potential investor whether growth or income will need to assess whether that level of return is desirable in the context of the risk assumed by this particular strategy.

[4:30]

SS: You just mentioned the word risk there but one of the biggest risks for this sector is political risk because as you've said previously a lot of the projects are actually backed by the government. Do you think there's a higher than normal political risk at the moment?

WA: Well you're certainly correct in identifying that as a key risk for the sector. Political uncertainty is definitely unwelcome since many infrastructure projects are supported by, or originated under particular assumptions regarding policy.

I think it's fair to say that political uncertainty is elevated at the moment and so we certainly feel more comfortable investing in areas where we believe there's strong cross party support. For example, we believe that the transition towards a decarbonised economy, so the green agenda if you will, is something that will persist regardless of which party is in power. That should provide some security for our renewable energy investments.

[5:30]

SS: And one of the things they've been talking about today is electric vehicles and the fact that the UK government might want to bring forward the date when they stop producing cars that run on petrol and diesel. Is that an opportunity as well?

WA: The sort of development of the physical infrastructure, the charging points for example that will need to be built out to support such a transition, could potentially form an investable opportunity for us.

We look for long-term contracted cashflows, linked to assets and they could feasibly be something like that in the future. At the moment it's not really something that's investable. There are companies that are involved in the tech side of things, building out those and then the sort of contractors that will be involved in installing that stuff.

[6:26]

TRANSCRIPT: EPISODE 7

SS: And there's nothing in sort of storage, battery storage and stuff like that?

WA: So yeah, we are invested in battery storage - in both funds actually we've kind of dipped our toe into one particular company. A few have come to market. Again we're kind of just assessing.

SS: So early doors at the moment.

[6:45]

WA: Yes because the contracts there aren't as long-term in nature as we typically like and there's a bit of - something called the capacity market - which is basically payments from the grid to suppliers for basically maintaining capacity being there. There's a big sort of hiatus there in those payments, it's been judged by the EU to be a form of subsidy, so it's tricky situation at the moment.

In the terms of the longer term contracts behind all of this but at the moment we're doing fine with the sort of short term contracts that are in place by the company we own at the moment.

We're just watching that space really develop. But it is important. It's critical for the transition. You've got all this renewable energy coming on but the problem of course with renewable energy is that it's totally unpredictable - it's intermittent.

The sun's not always shining and the wind's not always blowing.

[7:45]

SS: How do you deal with that then? There's another fund manager I was talking to who was talking about Florida and the sunshine state and actually there's some great solar things over there. Obviously this is a UK fund so in terms of solar, how do you manage that unpredictably?

WA: In terms of...from an investment point of view actually irradiation for solar and even wind speed you can model them over long periods and the variation of generation is not massive. But in the context of day to day lives, in the UK the electricity market is essentially pricing is determined in half an hour periods. You've always got a need for a certain amount of base load power for example and then you've got peaks and troughs throughout the day.

TRANSCRIPT: EPISODE 7

Renewables are very different from what we've had in the past. The sort of thermal, you know coal and gas for example where you just click the switch and it's producing and it's always there. And that is the problem, it's basically ensuring that you have that continuation of supply but bringing on all this renewables.

They're great in many ways but the bad point is that it's not consistent and so you need to absorb all that energy while it's going, which is where battery storage comes in. And then it can deploy it at times of lower generation for example, or the actual companies running the batteries will basically try to absorb power when the prices are low and put it out when prices are high. So there's different angles.

In terms of investment in that area over long period of times you're generation should be pretty constant but of course the actual real everyday life important part is consistency of energy supply to the grid.

SS: It's really interesting, thank you.

WA: Thanks

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