

TRANSCRIPT: EPISODE 186  
5 April 2022 (pre-recorded 1 April 2022)

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[INTRODUCTION]

**Staci West (SW):** Welcome back to the Investing on the go podcast brought to you by FundCalibre. Today, the 4th April 2022, starts World Sustainable Energy Days, a leading annual conference on energy transition and climate neutrality with more than 650 participants from over 60 countries. In this episode we discuss the energy transition with Will Argent, investment adviser to the VT Gravis Clean Energy Income fund.

**Ryan Lightfoot-Aminoff (RLA):** I'm Ryan Lightfoot-Aminoff and today I'm joined by Will Argent, who is the fund advisor to the Elite Rated VT Gravis Clean Energy Income fund. Will, thank you very much for your time today.

**Will Argent (WA):** Pleasure, thank you.

[INTERVIEW]

**RLA:** Now the trend to renewable energy was gathering pace and has been for many years, but do you think that current macro issues with Russia and our dependence on its gas will accelerate this move further, or do you think there'll be a move towards nuclear power? We've seen the prime minister considering this recently, which way do you think is going to go?

**WA:** Well Ryan, I think it's probably going to be a bit of both to be honest. Recent geopolitical events have brought Europe's dependence on gas, or Russian gas, into the spotlight, of course. And there is already a move to accelerate the build out of renewable energy capacity across the region. I think in recent years, the conversation around renewables has understandably been

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around emissions reductions objectives and the green agenda. However, if you can install more localised, renewable power generation it does bring benefits in terms of security of energy supply. So I think this benefit is something that's likely to be talked about more going forward.

But of course harnessing the full potential of renewable energy generation which of course is intermittent is also a major consideration. In terms of nuclear, I think nuclear is going to form part of the global energy supply mix. You have different views, however across different jurisdictions. Germany is a good example. Germany was expecting to phase out nuclear this year. And it may now extend the life of some of its nuclear assets, but I don't think they haven't suggested that they'll reverse the general move to phase out nuclear. Meanwhile as I think you've mentioned the UK government has been really keen, I think, to develop more smaller scale nuclear power plants around the country. And that was even before recent events.

**RLA:** And you mentioned the words intermittent in the answer when you talk about renewables. When we do think of renewable energy, we think of wind and the sun, things that are largely dependent on the weather, which in the UK market, as we've seen this week, where I've currently got sunshine and snow in April, it can be a little hit and miss. So what advances have been made in energy storage to make that supply more reliable?

**WA:** Yeah. I mean your observation is correct. You know, wind and solar the most widely adopted and scalable forms of renewable power are of course intermittent, wherever you are in the world. They are dependent on wind resource and irradiation levels but battery storage technologies have developed to a stage where large scale, utility scale battery assets are being introduced to the grid network. And what this means is that power generated from renewable sources can be stored when those generation levels are really high and then to be, stored and deployed when needed. So batteries will form an increasingly important role in harnessing the full potential of renewable energy capacity and just sort of smoothing out supply demand imbalances over a particular period.

I think it's also worth mentioning that hydroelectric power plants may also be used in the context of energy storage. Perhaps not so much in the UK, but elsewhere geographically, I mean when renewable power generation supply is really prevalent excess power can be used to pump water upwards, essentially for release through the hydroelectric plant at a later point when required.

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**RLA:** And now obviously energy prices have been hitting the headlines a lot recently, especially the last week with the increasing of the cap. Do you think that renewables were able to bring down the price of energy in the sort of medium to longer term?

**WA:** Yeah, it's a good question. I think, you know, if we take the UK as an example the price of electricity is set by the marginal source of electricity generation. It's a merit order. So you know, that marginal supplier of generation tends to be gas. So the spike in gas prices recently is why electricity prices have risen. Now over the longer term, more lower cost renewable power generation capacity, alongside sufficient storage capacity, could ultimately squeeze out gas as the marginal source of generation more frequently and thereby bring down the cost of electricity.

**RLA:** And how do these high energy prices effect the companies themselves and things that you invest in? Many of the renewables have fixed price contracts, but are they based on energy features, perhaps you could explain this and how it works for the sort of companies that you look at?

**WA:** Yeah, that's right. We invest in companies that own diversified portfolios of renewable power generation assets. Now different companies will adopt different strategies in terms of hedging out their merchant power price exposure. Some will retain higher pricing risk and thereby stand to benefit more in the prevailing environment of higher prices. But if you consider a typical renewable energy company, will own a large diversified portfolio of assets, with power purchase agreement contracts for the output they produce. Those contracts expire on a sort of rolling basis across the portfolio. The more persistent recent higher prices are the more likely these will be captured as contracts are renewed.

Now different jurisdictions have different power market characteristics. In the UK, companies may typically be able to hedge or fix their sort of power price exposure on a horizon of perhaps a few years. Elsewhere, such as in the US, companies can strike really very long term power purchase agreements for the output they produce, extending to 15 or 20 years, quite commonplace, perhaps even 30 years in the case of some hydroelectric assets.

There'll typically be some form of ratcheting mechanism in the contracted prices over those very long time frames, however, which gives a little bit of protection or uplift to pricing over time. But I think what I also highlight is that although recent trends mean investors, may want to own

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companies with more merchant price exposure. It was only very recently that power prices were very, very low indeed. You know, the result of the economic hiatus brought about by the pandemic. So I think on a longer term view, the benefits of locking in price certainty should you know, certainly not be overlooked.

**RLA:** And one of the sort of big things that's coming into energy prices will be the move to electric vehicles. This is going to shift the dynamics from becoming a bit more expensive now, do you think that's going to help the adoption, or do you think that the higher oil prices and petrol prices going to offset that? What are dynamics of the higher energy price going to have on electric car adoption?

**WA:** Yeah, I have to be honest, it's not a major area of focus for me in terms of our clean energy strategy, but I think what it's fair to say is sales of EVs are growing rapidly. You only have to look at the data to see the sort of rapid growth in adoption, but also in terms of taking market share from conventional vehicles. That's certainly the case across Europe.

I'm not so sure the recent increase in energy costs has a significant influence on that sort of rate of consumer adoption or an influence on people's decision because yeah, as you sort of mentioned, petrol prices have risen sharply as well of course, higher electricity prices are a function of high fossil fuel prices, particularly gas, as we've touched upon. So I think it's not really going to have had a significant impact.

**RLA:** And one area that people perhaps have overlooked when they're thinking about greenhouse gas emissions and things like that are buildings, which make up about 30% of total emissions. So what are the opportunities here in terms of adopting either renewable energies we've already talked about or becoming more energy efficient for existing buildings.

**WA:** Yeah. It's a big area of focus. I mean, there are significant opportunities for improvements in energy efficiency to drive down greenhouse gas emissions and energy usage in general. This could be through the introduction of co-located renewable energy generation capabilities, onsite things like district heat networks, simply things like better installation, more efficient lighting and so on. I think regulations will help drive improvements in these regards over time. But I think it's also very interesting to point out that actually when we look at the projections supplied by the sort of major energy consultancies in terms of the required investment to reach net zero

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ambitions, for example, energy efficiency investment actually forms a larger component, monetary component, compared to what's sort of required in terms of renewable energy supply capacity. So yeah, a big sort of emerging opportunity set potentially.

**RLA:** Thank you. And now finally, just sort of turning to your portfolio a little bit. I see one of the biggest weights in terms of security types you've got in there is a thing called yieldco Equities. Can you just explain to our listeners what they are please?

**WA:** Yeah, sure. It is a bit of a catchall term. Yieldco is really a term commonly used in North America to describe companies that are created to own physical operational assets that produce predictable cash flows. These cash flows are underpinned by the long term contractual arrangements we mentioned a moment ago. So Yieldco's are prevalent in the energy sector. And of course in our case, we focus on Yieldco's that house portfolios of renewable energy infrastructure assets such as wind farms and solar parks.

Yield Co's will often have a sponsor, a major shareholder, that will undertake perhaps the less predictable activities in terms of renewable energy capacity buildout. So the development of new projects, for example and there'll often be an arrangement in place between the Yield Co and that major shareholder or sponsor so that the Yieldco gets optionality or first refusal on those assets once they've been energised and de-risked. Yieldco's are created to distribute a really high proportion of cash generation to investors in the form of dividends. And of course that clearly suits our income focused strategy in this area.

**RLA:** Brilliant. Well Will, that's was really interesting. Thank you very much for your time today.

**WA:** Thank you.

**SW:** Renewable energy is undergoing mass adoption – a trend which this fund taps into directly. It aims to capture a blended portfolio of the best listed vehicles across the developed market and give an anchor to portfolios through defensiveness and steady income. To learn more about the VT Gravis Clean Energy Income visit [fundcalibre.com](http://fundcalibre.com) – and don't forget to subscribe to the Investing on the go podcast, available wherever you get your podcasts.

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