holden™ and partners

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Bespoke financial and investment advice

Review

Personal finance commentary and opinion

All change at Holden and Partners
Mark Dodd

Reflections on money and financial planning
Andrew Moss

Changing technology
Emily Winn

This issue...

All change at Holden and Partners...

Holden and Partners was established 14 years ago in the years following various financial miss-selling scandals, the failure of The Equitable Life, and waning faith in stock markets resulting from the crash in tech shares in early 2000.

The partners who founded the business all those years ago, most of whom are still with us, started out with a desire to create a business built around the trust of their clients and a responsible approach to investing the assets of the firm's clients. Judging by the numbers of clients who have stayed with the business, some since 2003, the business continues to achieve those early ideals.

Some of you have met our new Managing Partner, Andrew Moss, who before taking on his current role, had the opportunity to work with us on a number of projects over a two and a half year period. As well as gaining an understanding of the structure of the firm, the time spent has been invaluable, allowing Andrew to get to know both our staff and some of our clients.

An important part of Andrew's role is to build on the ethos of Holden and Partners, particularly the way we look after our client relationships and manage the assets our clients have entrusted to us. In this regard we want to make it easier for our clients to see what we are doing to achieve these aims and we are working on two initiatives to facilitate this.

Firstly we have rebuilt our website (please see page 5 of this newsletter). The site will provide topical and informative pieces on our expertise around responsible investing and we will be adding articles and links on this subject we think will be of interest to you. The site will also provide headline financial news that may affect your financial planning arrangements. We hope you enjoy the site and we welcome your feedback on it.

We are also planning to make it easier for you to access details of your financial planning arrangements via the introduction of a client based interactive software system, due to be launched in the spring this year. As we get closer to the launch date, we will be letting you have more details of the system and how it will help you keep track of your financial arrangements.

Whilst we aim to make the improvements noted above helpful and of interest, we also want to provide opportunities for you to meet more of the team at Holden and Partners. To enable this we hope to add more events to our calendar: investment lunches (we have now held six); financial planning seminars; and our first summer party.

Hopefully this gives you a flavour of some of the developments Andrew has been involved in at Holden and Partners so far and if you have any suggestions for more, please get in touch to discuss.

If you have an idea, for an article of something you would like us to investigate, please email the Holden and Partners Review team at: info@holden-partners.co.uk

An alternative approach

With the opportunity to save into a pension being affected by successive changes to the tax relief regime, an alternative approach that still holds favour, with attractive taxation benefits, is the Enterprise Investment Scheme (EIS) – a tax incentivised scheme introduced by the UK Government in 1994 to encourage and reward individuals who invest capital in small unquoted companies.

Finance raised through EIS is helping the UK economy with investment used by the companies to expand and grow, so long as this is within the criteria set out by Government on the type of companies that can raise capital this way, encouraging funding in sectors where investment is needed.

We favour those arrangements that invest in environmental, sustainable and infrastructure projects, particularly those that have been granted Advanced Assurance by HMRC, providing reassurance to investors that they qualify for the valuable EIS tax reliefs, which include:

- 30% upfront income tax relief
- 100% Inheritance tax exemption after 2 years
- 100% capital gains tax deferral on investment
- Capital gains tax free returns

Investing in EIS is not for those who are risk averse, though the tax relief available makes EIS a viable alternative for those who are not able to contribute to their pensions to the desired level.

Mark Dodd
Partner

Reflections on money and financial planning

You won't be surprised to learn that over the 30 years or so I have worked in the financial services sector, I have learnt a few lessons about money...

It is something we all need but a subject rarely spoken about outside a few confidents, which is perhaps surprising when you consider how important a part of people's lives this commodity is.

Our role and our interaction with our clients at Holden and Partners is about ensuring we understand our clients financial needs and how they will use their money to help them achieve their and their families, life objectives. If we are able to walk our clients along a straight path, from a financial perspective, and bring their plans to life, then we have achieved our objective.

Having worked with Holden and Partners over the past two years or so, I see how hard each part of the team here works for our clients. Looking after our clients is as personal to us as your money is to you. Of course money does not come with any guarantee of the outcome of our planning, but what we can guarantee is our commitment to working with you to, where possible, achieve a successful outcome.

Andrew Moss
Managing Partner

Changing technology

In a world so strongly driven by technology, it is crucial that companies put information technology at the heart of their business. In our industry, we are also faced with the challenge of constant regulatory change that must be adhered to. Therefore, we must ensure that we have the best possible database and robust processes in place to help us overcome these difficulties.

With this in mind we have made the decision to replace our existing back office system that has faired us well for many years, making this one of the most challenging projects we have ever embarked on.

The new software package we have opted for is used by thousands of financial advisers across the UK, to effectively manage their core business functions in one central place. The most significant impact to our clients will be the new online valuation portal. Our current valuation system operated for many years and whilst initially this was innovative, time has moved on and we feel that it no longer provides the level of detail and access our clients require.

The new software will provide clients with a more user friendly, modern and interactive experience. Clients will have the ability to update personal details themselves as well as view and download comprehensive valuations.

The software is Cloud based and offers an app which can be download onto any device meaning clients can access their information very easily, wherever they are, and not be restricted to a desktop computer. In turn this will make review meetings with clients more interactive, with advisers being able to log directly into a client's portfolio on an iPad.

We hope to complete the software implementation during May 2017 and firmly believe that it will enhance our business, improve the client experience and help to make Holden and Partners a more efficient, process driven organisation.

New website

Holden and Partners has a new web site **http://www.holden-partners.co.uk**. The structure of our new site allows us to be responsive to events of interest and update it with topical and informative articles. Our intention is that the site always contains something of interest to review.

Please let us have your comments, as we value the feedback you give us.

Emily Winn
Operations Manager

"Let them eat cake..."

This famous uttering was allegedly spoken by Marie Antoinette, upon learning that the French peasants had no bread (although the evidence attributing this to her is flimsy).

The comment was made at a time when the French peasantry spent around 50% of their income on bread (or brioche). As we arrived into 2016, most politicians seemed as remote from the realities on the ground as Marie Antoinette. Few sensed what was to come and for many it proved to be a calamitous year as far as political careers were concerned.

What many politicians missed was the impact on their populations of the upward creep in costs coupled with a commensurate crunch in net income. In the UK, the cost of rail travel, housing and education have all risen disproportionately to income and an increasing number of people are feeling squeezed.

In the early days of David Cameron's leadership, he said "we are all in it together". At the time this statement was made, his audience may have been inclined to believe him, but after an extended period of falling living standards, for many the sentiments borne in this comment were wearing thin.

Where politicians seem to have been misguided, was to believe we were all in it together and that patience with the economic policies that were hoped would facilitate recovery in Western economies, would prevail. How wrong they were.

The dissatisfaction of populations with the state of their nations has been expressed in two game changing votes, the Brexit referendum and the US presidential election. The results have swept away the old guard administrations, and the new incumbents led by Donald Trump, herald change. Both the politics and economics they influence may see a radical move from the status quo.

It is not within the remit of this piece to speculate about the extent of the political change stemming from new administrations, suffice to say there will be change. Rather our focus is on economic policy and the impact it may have on investment markets. Here the story is also likely to be about change.

We expect to see in 2017 a considerable easing in monetarypolicy (led by the US), leading to the re-emergence of animal spirits in some markets largely influenced by the US. The policies of the forthcoming Trump administration are less than certain and will probably take time to materialise. However, markets are taking it upon themselves to anticipate some of the outcomes and who can blame them when you consider the combination of factors that may come into play:

- The ability of Congress to break policy deadlock
- Tax cuts for private individuals and corporates
- A tax amnesty for overseas cash held by corporations
- A surge in infrastructure spending
- Deregulation of investment markets

This pro-investment agenda is the first significant change in economic policy in eight years, and has the potential to push equity markets higher. The caveat here, is that improving equity values are likely to be accompanied by bouts of perhaps significant volatility, as politics continues to collide with economics.

Changes to the asset mix held in our clients portfolios will need to be measured and adjusted as conditions change, and of course there are no guarantees when it comes to investment markets. Where we can be fairly certain is that we will not be advising our investors to replace bread in favour of cake!

This pro-investment agenda is the first significant change in economic policy in eight years and has the potential to push equity markets higher...

Andrew Moss
Managing Partner

To be or not to be a trustee

I have recently taken on the trusteeship of a trust in my personal capacity. Approaching the role from the other side of the fence gave me cause to review the duties of a trustee and I was reminded of the seriousness of the undertaking.

Whilst a trustee can delegate much, there is an irreducible core that they cannot and even where they can they must still review that decision. Much could be written on the topic but here I only hope to provide a guide (and hopefully not deterrent) to some of the key duties and considerations when taking on the role and the investments that come with it.

Initial Duties

A trustee must first establish their role by ascertaining key information.

1. **What was the Settlor's intention for the trust and what is the current purpose? Hopefully there will be a settlor's letter of wishes to guide you.**
2. **What are the terms of the trust and, in particular, who are the beneficiaries and what interest and rights to trust property do they have?**
3. **What are the assets of the trust, how are they held and are they appropriate?**
4. **What is the tax treatment and tax history?**

Requesting a copy of the most recent trust accounts and tax return should provide answers to some of these questions but asking the advisers or outgoing trustees for plain English answers is also sensible.

Duty of Care

As a trustee the law dictates that you must exercise the same care and skill as an 'ordinary prudent man of business in the conduct of his own affairs' as is reasonable in all the circumstances. This specifically includes any experience you may have in your 'day job' – so bad luck if you are a trust lawyer or financial adviser.

Investment

Trust instruments either give trustees express powers of investment or they have a broad general power as a matter of law, so no trustee is now too restricted in terms of what they can invest in. They do, however, have certain duties when considering how to invest.

1. **The law requires trustees to have regard to the Standard Investment Criteria ('SIC'), which are essentially the suitability of a**

Since 6th April 2016, members who have taxable income for a tax year of greater than £150,000 will have their annual allowance for that tax year restricted....

particular investment to the trust and the need to diversify the investments. Diversification is fortunately no longer an absolute requirement for trustees but it must still be considered. If all you own is shares in a family business this may be fine provided you regularly consider whether this is still appropriate.

2. Trustees are required, fortunately for those of us who do not claim any investment expertise, to seek investment advice from one who they reasonably believe is qualified to give such advice.

3. Trustees may, again fortunately for most, delegate their investment duties to those more qualified but this appointment should be in writing. These investment managers must also have regard to the SIC and should be given written guidance in the form of a 'policy statement'. Investment advisers will be familiar with these statements and will be able to help you draft them if there is not already one in place.

This brief note is by no means a definitive list of trustee duties and there are many more. However, the above hopefully alerts you to some of the serious responsibilities and which warrant proper consideration in advance of saying 'yes' next time you are asked.

Paul Fairbairn,
Associate, Withers LLP

Investing in property – post Brexit

In the immediate aftermath of the UK's decision to leave the European Union in June, the UK commercial property market, and by association the investment funds that invest within it, endured considerable strain.

Forecasters projected sharply reduced capital values and investors, as a consequence, flocked to reduce or remove their exposure, culminating in virtually all commercial property funds witnessing unprecedented redemption requests amounting to billions of pounds. Inevitably, such requests became too great, resulting in most funds closing to any type of transaction, sale or purchase, in order to not only protect those investors, who had opted not to sell, but to also embark on a managed program of asset sales to restore the cash balance back to adequate levels.

With the six-month period since the referendum result allowing for clear and rational thought, the fundamentals underpinning the UK commercial property market remain largely intact in our view, though we recognise that Central London and West End offices are particularly exposed to the uncertainty surrounding Brexit negotiations given the potential impact on the financial sector. Most importantly, despite Brexit, commercial property remains a secure and stable source of income, ensuring that its yield superiority over fixed-income, particularly UK Gilts, is comfortably maintained. In addition, commercial property retains its ability to provide a degree of protection from inflation due to the fact that, with or without Brexit, many lease agreements have built-in inflation adjustments that ensure rents increase in line with rising inflation.

Accompanying the income and inflation aspects is the fact that overseas demand for UK commercial property assets, which reached very strong levels pre-Brexit, is displaying no signs of waning, as the UK's sound legal system and high quality assets remain of sufficient appeal. Indeed, the sharp depreciation of Sterling versus many currencies is likely to act as an accelerator to such demand, as foreign capital will now go further within the UK commercial property market. The amalgamation of these points – income, inflation, and overseas demand - largely underpins the positive total return forecasts made by the Investment Property Forum. However, it is important to acknowledge that the predominant return driver going forward is likely to be income rather than capital growth.

The two funds that Holden and Partners use within client portfolios to access UK commercial property navigated Brexit relatively well. Upon closure, both conducted orderly asset disposals to replenish cash to sensible levels, both ensured that sales did not materially alter the diversification or risk profile of their respective portfolios, and both achieved average sale values that were very close to pre-Brexit levels. This averted fears that, with a well-publicised need to sell, properties would be sold for distressed prices far below market values. Looking ahead, we are confident that both are well positioned, supported by their resolute focus on quality tenants, leases and properties, and the fact that their exposure to Central London and West End offices, as well as financial sector tenants, has been significantly reduced, a prudent step to take given potential for further Brexit-related uncertainty.

To conclude, Holden and Partners believe that the investment case supporting an allocation to UK commercial property remains largely unharmed despite Brexit, especially when viewed through a longer term lens. Stable and secure income, a degree of inflation protection, and strong foreign demand should continue to underpin the market, however we are cognisant of the likelihood that income will drive returns for the foreseeable future.

Holden & Partners believe that the investment case supporting an allocation to UK commercial property remains largely unharmed despite Brexit...

Jack Rawcliffe
Investment Manager

End of tax year planning

As we approach the end of the tax year, it's a good time to consider the way in which your investments are held and whether you have the ability to utilise any allowances, reliefs and exemptions available to you. By doing so, you may have the opportunity to minimise any tax due, in turn maximising net income, capital gains and ultimately wealth.

Income Tax

"Give funds to your spouse/civil partner"

We always suggest that individuals should review their expected income levels. Through careful planning, you could avoid taxation at the marginal tax rates by: making pension contributions, payments to charity, giving income yielding assets to a spouse/civil partner with a lower income, making contributions into alternative investments such as an EIS or VCT, and taking advantage of various allowances.

In April 2016 we saw the introduction of new personal dividend and saving tax free allowances. In the March 2017 budget we saw Phillip Hammond make significant changes to these allowances, serving as an important reminder of the value of ISA's. Whilst there remains some useful tax planning in regard to the tax free dividend allowance, our preference is to keep it simple and utilise ISA allowances. In the coming 17/18 tax year these will amount to a hefty £40,000 for a couple who each contribute their full £20,000 annual allowance.

For additional rate tax payers, personal income over £150,000 gross is taxed at 45%; however, as the personal allowance is reduced by £1 for every £2 of net income over £100,000, any income between £100,001 and £122,000 (£123,000 from 2017/18) the effective top rate is 60%. By taking advantage of some of the above planning tools, individuals with this level of income could reduce their income levels and therefore regain their personal allowance, in turn increasing their net wealth.

Capital Gains Tax

"Utilise your Capital Gains Tax Allowance"

The annual capital gains tax allowance for this tax year is £11,100 and is available to all individuals, including minor children. This allowance cannot be carried forward to future years and it's therefore important to realise gains each year up to the annual allowance, if possible.

Married couples and civil partners can transfer assets between one another, without any tax implications, and these transfers should therefore be considered to ensure that both annual exemptions are fully utilised.

Capital losses can also be useful as these can be offset against capital gains in the same tax year. Unlike capital gains, losses can be carried forward indefinitely and offset against any future gains. This can be valuable when you have or are expecting to realise a large gain (for example, following the sale of a property that's not your main residence).

This tax year, we saw a reduction in the capital gains tax rate from 28% to 20% for higher and additional rate tax payers and 18% to 10% for basic rate tax payers. Please note capital gains realised following the sale of a property will still be taxed at the higher levels of tax.

ISAs

"Utilise your ISA Allowance"

The ISA allowance for this tax year is £15,240 and is available to all adult individuals until the 5 April 2017 and can be made into either a Cash ISA or Stocks and Shares ISA. Although this full allowance is available to minors aged between 16 and 18, this is limited to Cash ISAs only. Minors of any age can contribute £4,080 into a Junior Stocks and Shares or Cash ISA.

Unlike pensions, ISAs produce a tax free income and can therefore form an important part of your retirement planning. This tax year the Government introduced an added benefit whereby these income tax exemptions can now also be preserved on death, where one spouse or civil partner leaves the monies to the other.

Pensions

"Claim higher rate tax relief of pension contributions"

Unless you have an income in excess of £150,000, current rules allow individuals to contribute 100% of earned income up to a limit of £40,000 gross. Since April 2016, those with incomes in excess of £150,000 the £40,000 allowance is reduced by £1 for every £2, down to a minimum contribution of £10,000 gross. These rules apply to both defined contribution and defined benefit schemes.

Pensions are a great tax-efficient way of savings as a result of the tax relief you can receive. On personal contributions made within the above limits, you will immediately receive a 20% uplift in the gross contribution you make and higher and additional rate tax payers can receive a further 20% and 25% of income tax relief (respectively), via self-assessment.

"Carry forward unused pension contributions"

Unused pension allowances in 2013/14, 2014/15 and 2015/16 can be brought forward and used in 2016/17, as long as you had an active pension in those years. If you are in any doubt of the level of contributions you can make, you should take advice as any contributions made in excess of your personal pension allowance will result in a tax penalty. Please note that this includes both employer and employee contributions as well as increments within defined benefit schemes.

In April 2017, individuals will be able to benefit from the new 'lifetime ISA' and some are predicting that this could lead to the removal of higher rate tax relief on pension contributions. It might therefore be worth taking advantage of the higher rate tax relief on pension contributions, whilst available.

"Non-earners and minors can also make pension contributions"

You don't have to be in employment to make pension contributions. A net contribution of £2,880 (£3,600 gross) can be paid into a pension scheme prior to the 6 April 2017 for those who aren't earning, and that includes children too!

Continued Over ›

Alternative Investments

Higher earners can benefit from income tax relief via alternative routes; however, it's important to note that these type of investments are inherently risky, as you are investing in smaller companies that are not fully listed. You should therefore seek advice before investing:

"Enterprise Investment Schemes"

Contributions into qualifying EIS companies in the 2016/17 benefit from 30% income tax relief and may be exempt from capital gains tax on disposal. In addition, in the event the investment is held for at least 2 years prior to death, the investment will qualify from business property relief, thereby reducing the overall inheritance tax liability.

"Venture Capital Trusts"

Venture Capital Trusts also benefit from 30% income tax relief. In addition, any dividends received are tax free and any trades made within the trust are not subject to capital gains tax.

In summary, there are many ways in which we can structure your investments to minimise the level tax due both now and in the future.

Higher earners can benefit from income tax relief via alternative routes...

Stefani Rogers
Financial Planner

Hammer blow to pension savers

Half a million people who accessed their pensions flexibly since 2015 will soon be hit with a reduced annual allowance of just £4,000, the Treasury has confirmed.

The new reduced money purchase annual allowance (MPAA) for anyone accessing taxable pension benefits will apply retrospectively from April 2017 to everyone who has accessed a cash lump sum since April 2015, even though the MPAA stood at £10,000 when they made their withdrawal. This makes it increasingly difficult for individuals to be able to plan for their future, when the goalposts can be moved at a later date.

An anomaly applies however to public sector and other defined benefit scheme members, who will be allowed to continue to accrue pension benefits worth £40,000 a year, even if they accessed their AVC or SIPP benefits through pension freedoms.

In the first 12 months following the introduction of pension freedoms in April 2015, 300,000 people withdrew cash lump sums, thereby triggering a reduced Money Purchase Annual Allowance for future contributions, according to figures from the Pensions Policy Institute. HMRC figures show 475,000 individuals accessed pensions flexibly in the six quarters following April 2015, although there may be some duplication in these figures.

As a result, even greater care now needs to be taken when you are considering drawing your benefits and there is the possibility that in the future you may wish to continue making pension contributions. If this is the case, discussing this in detail with your adviser is essential.

Mark Dodd
Partner

Complex world of pension planning

Pension contributions

Pension contributions remain an attractive means of tax efficient long term saving. However, you must be aware of the current rules that have come into effect from 6th April 2016. The annual allowance is currently £40,000 for the 2016/2017 tax year and is based on pension input periods. Pension input periods are now aligned with tax years. Any contribution over the annual allowance available attracts a tax charge. The objective of the annual allowance charge is to remove the tax relief given to any pension contributions over the annual allowance.

Since 6th April 2016, members who have taxable income for a tax year of greater than £150,000 will have their annual allowance for that tax year restricted. It will be reduced, so that for every £2 of income they have over £150,000, their annual allowance is reduced by £1. Any resulting reduced annual allowance is rounded down to the nearest whole pound. The maximum reduction will be £30,000, therefore anyone with income of £210,000 or more will have an annual allowance of £10,000. Members with high income caught by the restriction may therefore have to reduce the contributions paid by them and/or their employers or suffer an annual allowance charge

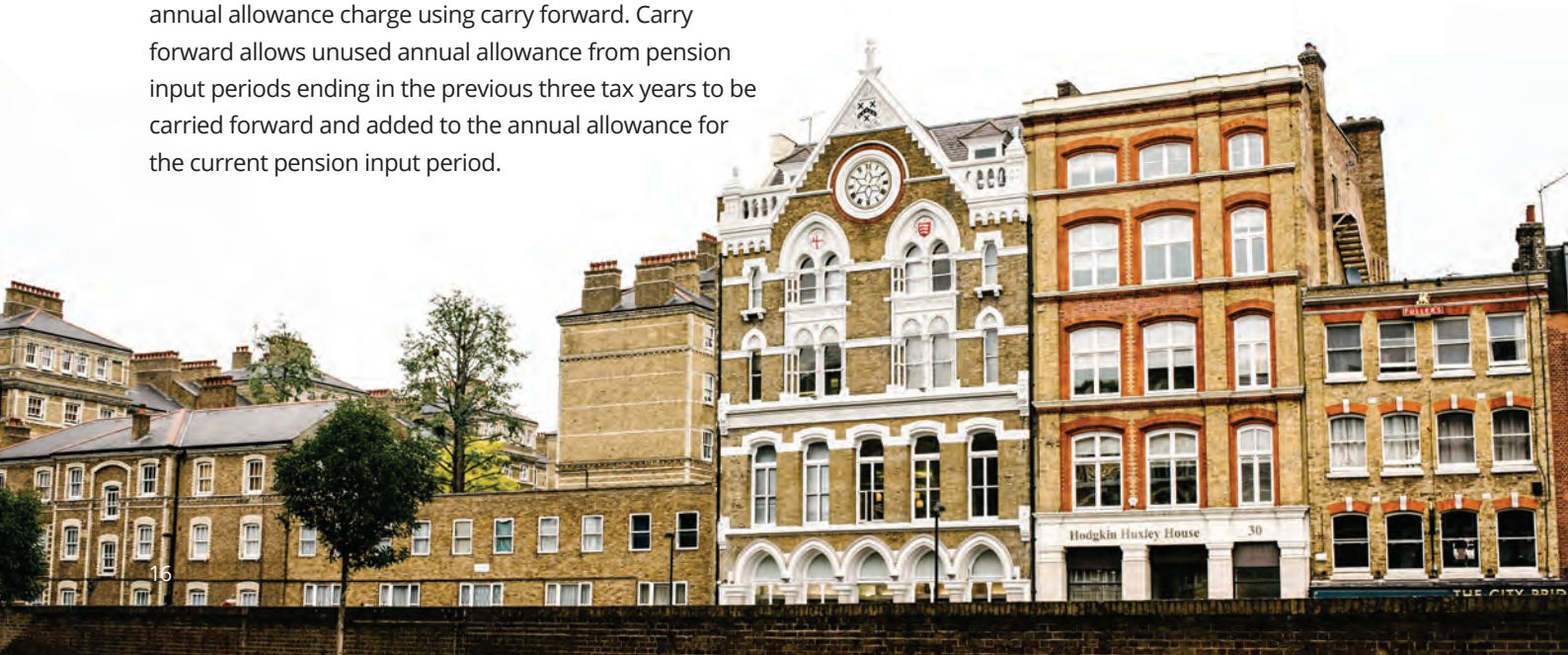
It may be possible to reduce or completely avoid the annual allowance charge using carry forward. Carry forward allows unused annual allowance from pension input periods ending in the previous three tax years to be carried forward and added to the annual allowance for the current pension input period.

Inspecie contributions

In specie contributions have been used by many as a way of making a pension contribution by transferring an asset from outside of their pension scheme, instead of selling it and using the cash proceeds to fund the contribution. Using shares held directly was the most common method, however HMRC recently changed its stance on this method, resulting in SIPP providers ceasing to accept them until the situation has been clarified

Lifetime allowance

The lifetime allowance (LTA) is the maximum value of benefits that can be taken from a registered pension scheme without being subject to the LTA charge. It may be possible to protect benefits in excess of the LTA. Individuals with large pensions should note that the LTA reduced from £1.25 million to £1 million on 6th April 2016. The LTA charge applies to members who have benefits in excess of the LTA when benefits are taken. The LTA charge can apply in either of two ways or a combination of both depending on how the excess benefits are taken.



The charge is:

- **25% on any income taken, and/or**
- **55% if taken as a lump sum**

It is still possible to apply for three forms of protection against the lifetime allowance.

Individual protection 2014 provides a protected LTA equal to the value of the individual's pension savings on 5th April 2014, subject to an overall maximum of £1.5 million. The pension member must have had pension savings of at least £1.25 million on 5th April 2014 to apply. The deadline for applying is 5th April 2017.

Two new forms of protection; fixed protection 2016 and individual protection 2016 were introduced on 6th April 2016. They were introduced when the LTA reduced to £1 million. Those intending to apply for fixed protection 2016 will have to ensure that active membership of pension schemes ceases from 6 April 2016. There is no deadline for applying for fixed or individual protection 2016.

Death benefits on pensions

A major change to the tax charges on death benefits paid from a pension in drawdown took effect from 6th April 2015. The restriction that income can only be paid to a 'dependant' no longer applies. Where someone has been nominated as a beneficiary by the plan holder, they can receive pension benefits. This means that any beneficiary can elect to take an income (including in the form of income drawdown) as well as a lump sum.

One advantage of a beneficiary taking drawdown is that on their death any remaining funds may be passed on to further nominated beneficiaries. This makes it possible to continue passing on the fund until it eventually runs out.

In summary, the tax treatment under these new rules is as follows:

- **On death before age 75, the benefits can be paid as a lump sum or as a drawdown pension to any beneficiary tax free, irrespective of whether they derived from uncrystallised or crystallised monies**
- **On death after age 75, the benefits can be drawn down or paid as a lump sum taxed at the beneficiary's marginal rate**
- **On death after age 75, the benefits can be paid as a lump sum to a trust with a 45% tax charge**

Annuities were brought into line with drawdown pensions from 6 April 2015; the restriction that income can only be paid to a 'dependent' has been removed. This means that joint-life annuities can be set up to be passed onto any nominated individual when they die. However, on death of the beneficiary the annuity will cease.

Secondary annuity market

In March 2015, the government announced their plans to let people who already have an annuity, exchange it for a cash lump sum, by creating a secondary annuity market. However, on 18th October 2016, the government decided to cancel these plans.

After discussing this with pension providers, industry regulators and consumer groups, the government felt that there would not be enough competition to create a competitive market. This meant that they could not guarantee customers would get good value for money, and as a result were concerned that customers could be at risk.

Reece Biggadike
Financial Adviser

Investing in the 'un-investable' – Understanding the renewable energy rout

2016 developed in a way in which few investors could have anticipated at its outset. In a year characterised by volatility, the recent election of President Trump proved to be the most precarious moment, provoking discussion on what lies ahead for various asset classes in 2017.

For all the furore surrounding the result of the US vote, the immediate equity market reaction proved to be fairly muted, which is somewhat unusual considering the sheer magnitude of the event. One sector which did not escape unscathed, though, was that of renewable energy. Considering Trump's record on environmental issues, this trend is hardly surprising; a president who advocates loosening restrictions on fossil-fuel production and labels climate change 'a hoax' is hardly positive for the alternative energy industry, but the extent of the sell-off should shock even the most sceptical of investors. Several companies, particularly those operating in the solar sector, had lost more than half of their market value by the end of 2016[1] with volatility so extreme that it rendered them almost 'un-investable'.

When these share price movements are taken at face value, it may seem prudent to avoid renewable energy equity altogether.

The conundrum is that the global trends underpinning the advancement of renewable technologies continue to gather momentum: the plummeting cost of solar and wind energy has boosted its ability to compete economically with 'mainstream' sources of power, despite the price of oil and coal falling significantly. Capacity is also growing rapidly; the world is currently developing more energy in the form of solar and wind farms each year than via coal and natural gas combined.[2] In addition, fears surrounding the viability of the industry's future appear to have been drastically overblown, particularly with regard to the American premier.

[1] Bloomberg - Based on the period 19/12/2015 - 19/12/2016, Sunpower -75.03%, Canadian Solar -55.8%, First Solar -47.27%

[2] https://www.bloomberg.com/company/new-energy-outlook/#findings

There is much support for the advancement of renewables at a state level in the USA, with the extension of a series of lucrative federal tax credits for solar and wind secured less than a year ago with substantial Republican backing.

The long-term prospects for the renewable energy are therefore robust, even though the short-term returns tend to be susceptible to volatility, primarily due to their high correlations with changes in energy prices.

In addition, fears surrounding the viability of the industry's future appear to have been drastically overblown, particularly with regard to the American premier.

This prompts the question of whether it is possible for investors to access the structural growth opportunities in the industry without exposing themselves to excessive unpredictability in returns. The answer lies within the development of renewable infrastructure. Low interest rates and the prospect of wide-ranging fiscal stimulus from the Trump administration, as well as in other countries such as the UK and Japan, has boosted support for infrastructure assets as investors seek out their steady revenue streams and high yields. Traditional infrastructure investment trusts are particularly 'in vogue' as they provide listed market access in the construction of schools, hospitals, and transport via private finance initiative (PFI) projects, although surging demand means that many of their share prices are trading at high premiums to net asset values (NAV), which represents the underlying value of the physical assets.

The same cannot be said of renewable infrastructure trusts. They, too, provide attractive yields and reliable income streams, most of which are secured through government-sponsored green subsidies, but typically trade on much lower premiums as many retail investors lack familiarity with the sector. The difference in value between the renewable energy infrastructure sector and the broader infrastructure industry is therefore far too stark, and presents substantial opportunities for discerning investors seeking exposure to this theme, supporting companies which are targeting areas of significant future growth in a rapidly-changing world.

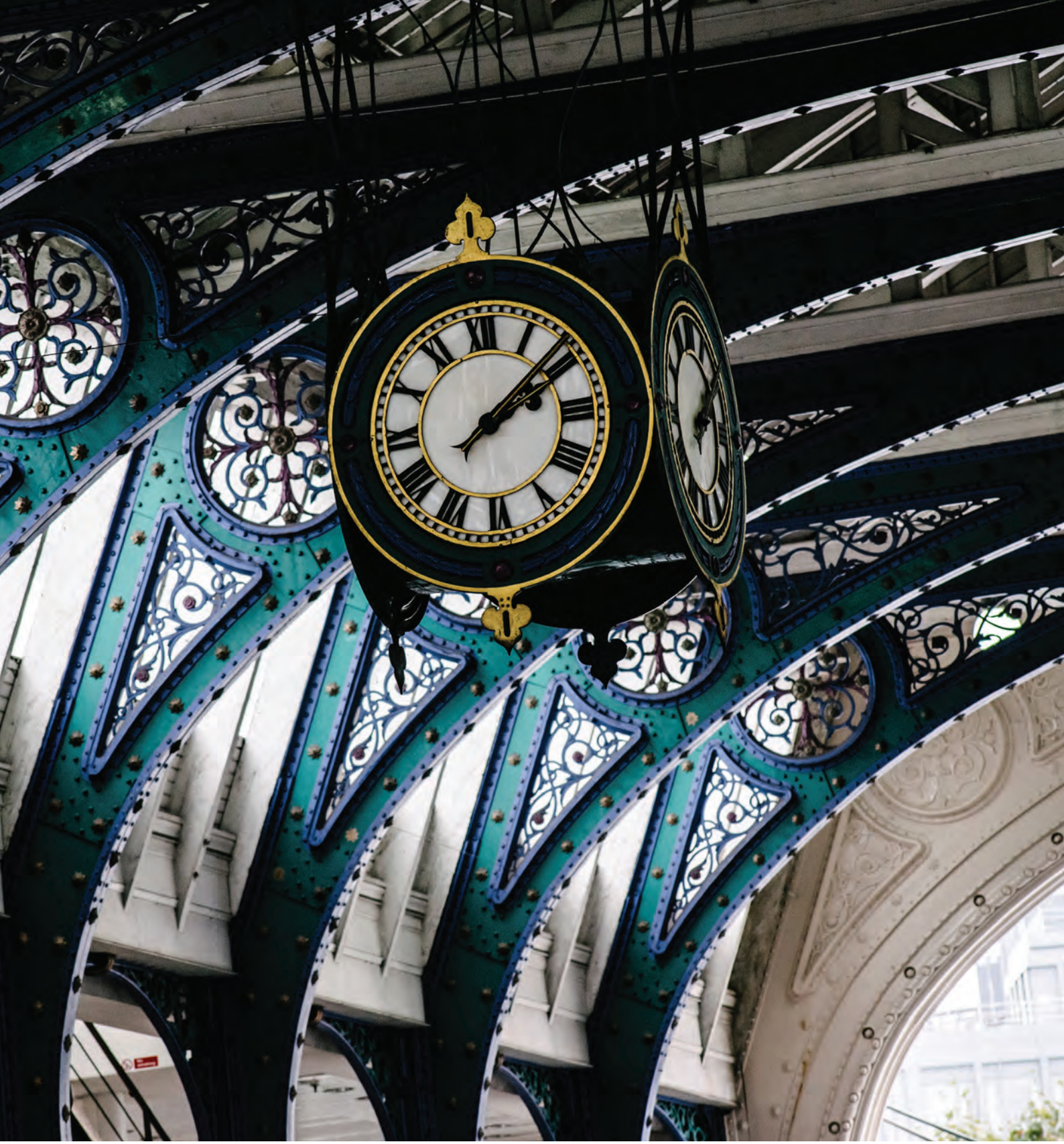
This is not to say that renewable infrastructure investment is without risk; traditional PFI infrastructure schemes do not have to contend with power prices, which fluctuate significantly, in the same vein as renewable projects, and the ongoing support of governments is crucial in deciding whether many renewable energy initiatives will prosper and represent a viable option for investors. But the concept of profitable sustainability is gaining traction, and further investment is needed if the government is to come close to its 2020 targets, or those set out in the Paris agreement.

Indeed, the renewable infrastructure trusts operating in the same sector as the much-maligned solar companies have generated positive returns over the past year, despite the political turmoil that had led many to question their future viability.[3]

Above all, structural growth in the sector remains bright. Large swathes of the population may not yet appreciate the extent of their personal impact on climate change, but this is a necessity if the world's population are able to live in a completely sustainable manner. Regulatory pressure on behalf of national governments to reduce its impact is leading to strict new policies which may fundamentally alter the way businesses operate, and renewable infrastructure is leading the way in transforming the global energy mix as policy-making continues to support new technologies at the expense of the fossil fuel industries.

Amelia Sexton
Investment Analyst

[3] FE Analaytics - Based on the period 19/12/2015 - 19/12/2016, The Renewables Infrastructure Group 8.76%, John Laing Environmental Infrastructure 1.71%



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