THE SUNDAY TIMES

The Sunday Times October 2, 2022

MONEY

Ian Cowie Personal Account

You need a lot of energy for this unpredictable regime

Shrinking sterling, soaring inflation, an energy crisis and a bloody war in Europe, plus party political knockabout closer to home. All we need now is a revival of the coronavirus to make a perfect day for the pessimists.

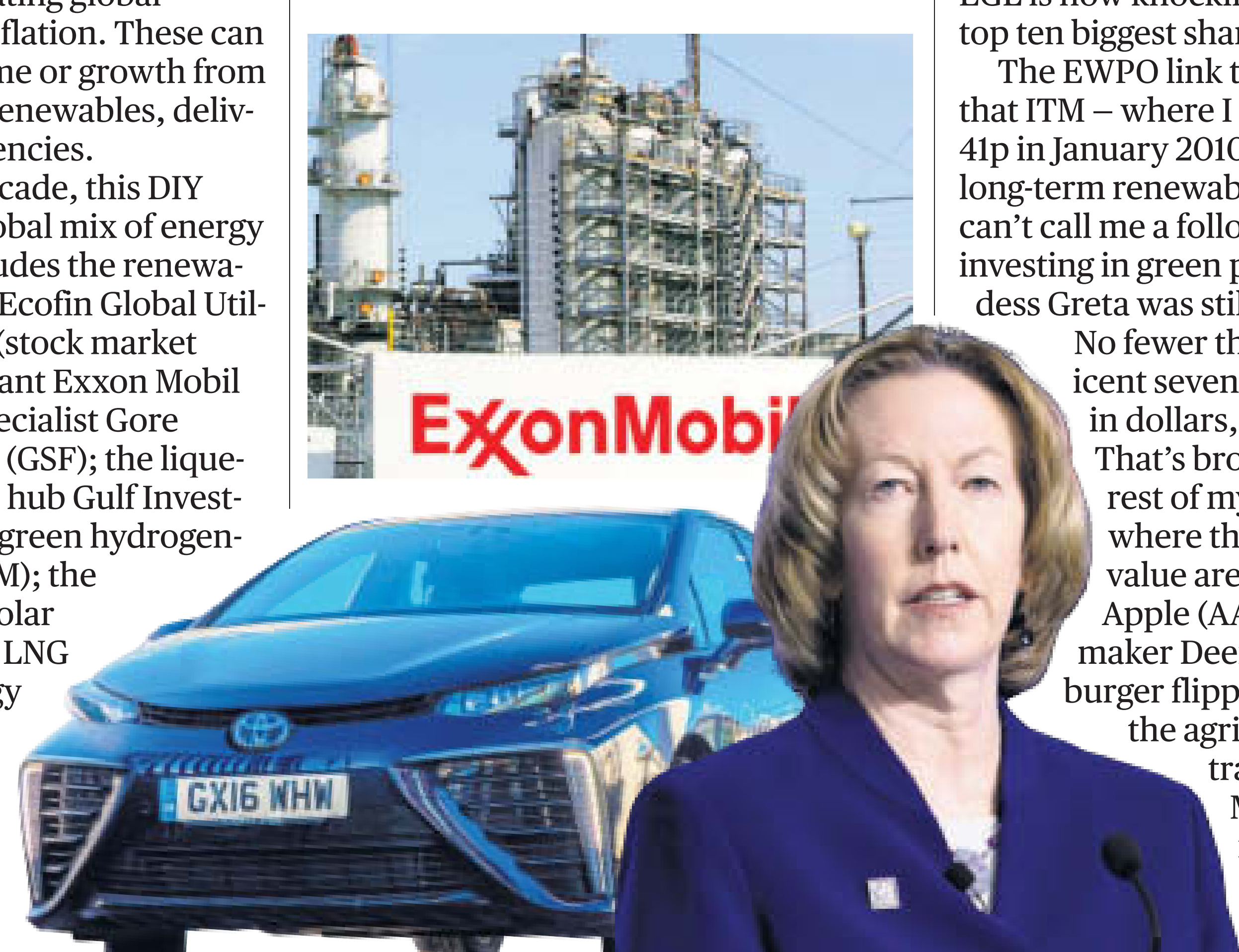
Savers and investors have reason to be scared. But the good news is that investing for income, ideally denominated in dollars, from diverse sources of energy might keep us warm this winter – literally and metaphorically.

Online platforms make it convenient and cost-effective for anyone to invest internationally. The idea is to diminish the risk inherent in any single country or currency by generating global returns in excess of inflation. These can take the form of income or growth from fossil fuels as well as renewables, delivered in different currencies.

For more than a decade, this DIY investor has held a global mix of energy shares. This now includes the renewables investment trust Ecofin Global Utilities & Infrastructure (stock market ticker: EGL); the oil giant Exxon Mobil (XOM); the battery specialist Gore Street Energy Storage (GSF); the liquefied natural gas (LNG) hub Gulf Investment Fund (GIF); the green hydrogen-maker ITM Power (ITM); the investment trust US Solar Fund (USFP); and the LNG giant Woodside Energy (WDS).

As income is a big attraction, here are these shares' dividend yields and the average annual increase in shareholders' income over the last five years. EGL yields 3.4 per cent after annual rises that averaged 33 per cent, according to the statisticians Morn- ingstar. XOM yields 4 per cent after 3.2 per cent dividend growth, according to Refinitiv. GSF yields 6.3 per cent and USFP pays 6.6 per cent but neither has a five-year record. GIF yields 3.3 per cent after 4.3 per cent annualised income increases.

ITM and WSD are the odd ones out because ITM pays no dividends but delivered explosive growth before recently falling from favour. On Thursday WSD will make its first distribution to British investors since we were issued with "free" stock last June. It is expected to pay A$1.60 per share.



Fossil fuel giants such as Exxon Mobil and Woodside Energy, run by Meg O'Neil, and renewable energy firms such as ITM Power, makers of hydrogen for cars, should all be winners this winter

Meanwhile even renewable stakes denominated in sterling can offer overseas exposure. EGL has 43 per cent of its assets allocated to North America; 38 per cent to continental Europe and only 11 per cent in the UK, where it remains exposed to our increasingly exciting and unpredictable fiscal regime.

I first invested in EGL at 152p in September 2019 and recently learnt it was formed out of another trust called Ecofin Water & Power Opportunities (EWPO), where I first invested in March 2011. I topped up at 223p on Wednesday and EGL is now knocking on the door of my top ten biggest shareholdings.

The EWPO link to EGL reminds me that ITM – where I first bought shares for 41p in January 2010 – is not my only long-term renewable exposure. You can't call me a follower of fashion; I was investing in green power when the Goddess Greta was still at primary school!

No fewer than four of my magnificent seven energy shares trade in dollars, mostly American. That's broadly in line with the rest of my "forever fund", where the top ten holdings by value are now the tech giant Apple (AAPL); the tractor maker Deere & Co (DE); the burger flipper McDonald's (MCD); the agricultural commodities trader Archer-Daniels-Midland (ADM); the miner BHP Group (BHP); the food company Nestlé (NESN); the vaccine maker Pfizer (PFE); the consumer goods giant Unilever (ULVR); the investment trust Worldwide Healthcare (WWH); and the insulin maker Novo Nordisk (NOVO).

ULVR and WWH are listed in London, but the rest give exposure to US and Australian dollars, Swiss francs and Danish kroner.

An imminent recession could diminish demand for energy, possibly drastically. But supply will be constrained because Russia has excluded itself from the developed world's energy markets, at least until Mad Vlad gets binned.

My biggest worry about renewables remains that all the main political parties sound enthusiastic about them. Which makes this contrarian investor fret that such unanimity means they must be wrong.

Never mind the geopolitics; squeezed supply and non-discretionary demand look likely to support the price of coal, gas and oil this winter. That should be good for fossil fuel firms as well as their renewable rivals.

You don't need to be a fossil fool to see traditional sources will be needed this winter. By contrast, renewables are the future and a way for investors to do well by doing good.

It doesn't have to be an either-or choice. Most economies and many investors will opt for a mixture of both to preserve the real value of income and growth, whatever the very worrying future holds for shrinking sterling and soaring inflation.

223p

The price Cowie paid for EGL shares on Wednesday that he first bought for 152p in September 2019