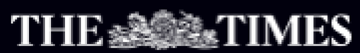

IAN COWIE | PERSONAL ACCOUNT

Don't wait for dithering politicians, it's time to diversify your energy stocks

Ian Cowie | Sunday February 12 2023, 12.01am, The Sunday Times

The share price of Ecofin Global Utilities & Infrastructure, that Cowie bought for £1.52 in September 2019, is now £2.13

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Politicians' promises to go clean and green with net zero carbon emissions in the future conceal a dirty secret today — it's called coal. Although most of us stopped burning the black stuff decades ago, the British government still relies on it to keep us warm.

Grant Shapps, the new energy security and net zero secretary appointed on Tuesday, tried to grab some good publicity by telling electricity companies that they must say how they will compensate people whose homes they wrongly fitted with prepayment meters. However, on the very same day, National Grid (stock market ticker: NG) quietly ordered two coal-fired electricity generators to warm up as part of "winter contingency plans".

Coal is the dirtiest form of fuel because it produces more carbon dioxide than liquefied natural gas (LNG) or oil. By contrast, hydrogen, wind and solar power need not produce any greenhouse gases at all.

So firing up the coal-burning Drax power station in North Yorkshire and another coal-fired plant at West Burton, Nottinghamshire, seems to short circuit the government's long-term objectives. The official aim remains to reduce Britain's carbon dioxide emissions to 68 per cent below 1990 levels by 2030, and achieve net zero emissions by 2050.

But, as the bank manager's rubber stamp used to say on bounced cheques, facts and figures do not agree. Our up-and-running renewable power supply is insufficient to meet demand when low temperatures coincide with lack of wind, so Britain has to fall back on dirty old King Coal.

Fortunately, individual investors can play our part in capitalising the transition to cleaner power, while profiting here and now from helping to keep the lights on. For example, the investment trust Ecofin Global Utilities & Infrastructure (EGL) is my 11th most valuable holding and includes Drax (DRX) and NG among its top ten assets.

I first bought shares in what was then called Ecofin Water & Power Opportunities (EWPO) at £1.22 in March 2011 and then invested more heavily at £1.52 in September 2019.

These shares cost £2.13 on Friday and continue to generate just over 3.5 per cent income. Dividends have increased by an annual average of 2.9 per cent over the past five years, according to the independent statistician Morningstar.

I am encouraged to see that EGL's top holding is NextEra Energy (NEE), which claims to be the world's biggest generator of wind and solar electricity. Closer to home, EGL also holds shares in another self-descriptive investment trust, Greencoat UK Wind (UKW).

My other renewable energy investments include ITM Power (ITM), the Sheffield-based producer of green hydrogen discussed here last week; Gore Street Energy Storage Fund (GSF), which specialises in the industrial-scale batteries needed to smooth out fluctuations in solar and wind energy supply; and sterling shares in the self-descriptive US Solar Fund (USFP). While the former share pays no dividends, the latter two yield 6.5 per cent and 6.8 per cent respectively.

Unfortunately, it will be a while yet before we can rely solely on renewable energy and this small shareholder is keen to keep capital and income growing in the meantime. So, after more than a decade as a shareholder in BP and then Shell, I sold the latter last March to buy shares in the world's biggest oil company, Exxon Mobil (XOM) at $95. These American shares cost $118 on Friday and yield just under 3.2 per cent.

I also have some exposure to LNG via Australia's Woodside Energy Group (WDS) and the Gulf Investment Fund (GIF), an investment trust that focuses on Qatar, a small country on the Gulf of Arabia which is one of the world's largest exporters of LNG.

WDS yields 8.6 per cent dividend income, according to the independent statisticians Refinitiv. Meanwhile, GIF still yields 3.8 per cent after raising shareholders' income by a remarkable annual average of 18 per cent over the past five years, according to Morningstar.

Regular readers will know that the main objective of my "forever fund" is not to shoot the lights out with capital gains one year followed by losses the next, but to generate rising income with capital preservation over the long term.

As a general rule, more expensive energy is bad for most businesses because it adds to costs and subtracts from profits, but I hope to balance this risk with rewards from fossil fuels and renewable energy.

With luck, whatever happens next, this small shareholder will win on the swings what I might lose on the roundabouts. That is what happened last year, when Russia's invasion of Ukraine caused oil and gas prices to spike before they eased back to where they are today.

The Confederation of British Industry (CBI) claims we are falling behind in a green energy "subsidy arms race", with nothing to match European Union initiatives or America's $369 billion (£307 billion) boost for solar and wind.

Battery storage businesses, including Exagen, say they have been told that new units cannot be connected to the National Grid until 2036. Worse still, talks to reduce our reliance on imported energy by expanding Britain's biggest LNG storage site, Rough in the North Sea, have collapsed.

There is no point waiting for politicians to match their talk with action. Small investors might as well walk the walk ourselves. If nothing else, it could help to keep us warm this winter.

The wealthy are older — and wiser

The *Great Gatsby* novelist, Francis Scott Fitzgerald, is said to have remarked: "The rich are different from you and me." To which another successful novelist, Ernest Hemingway, claimed to have replied: "Yes, they have more money."

Academics with nothing better to do now quibble about whether this conversation ever took place. Never mind. We can at least allow that folk with great financial wealth might know more about it than those with less.

So it is instructive to note that the online investment platform Interactive Investor has identified several significant differences between its wealthiest clients and the rest.

First, its 852 people with Isas worth £1 million or more were most likely to favour investment trusts to store their wealth.

No fewer than 42 per cent of these Isa millionaires held investment trusts, compared with 40 per cent holding other equities or shares in individual businesses and 8 per cent with unit trusts. Both unit and investment trusts diminish risk by diversification but only the latter form of pooled fund is listed on the London Stock Exchange.

Investment trusts have a closed-end structure — so managers never have to sell assets to meet redemptions — and can smooth dividend distributions, topping up shareholders' income in bad years with surpluses set aside in good years.

Second, the average age of Isa millionaires was 73 compared with 56 for the rest. This reflects the fact that it usually takes time to accumulate wealth, despite the get-rich-quick fantasies peddled by spivs and scammers.

Finally, 45 per cent of Isa millionaires invest in the first month of the tax year, compared with 27 per cent for the rest. Of course, to echo Hemingway, they have more money.

But Isa millionaires also know that the sooner your cash is put to work, the better. Let time do the heavy lifting.