

## **SHINING A LIGHT ON..... PREMIER GLOBAL POWER AND WATER FUND**

### **At a glance**

For new investors choosing the right sector or country can be daunting. Often they are drawn to the best performers, and those being advertised. This strategy could work but the reverse is also true with investors being disappointed because they haven't fully understood the investment strategy.

We have reviewed several Global Growth and Income Funds. Some have a heavy bias to the US, some are more globally diversified and some like Baillie Gifford Global Discovery and Scottish Mortgage are more suited to higher risk investors.

For investors moving back into equities a global fund may be appealing because of the diversified nature of the holdings. However, any equity based investment will have a degree of volatility. There is always confusion around risk and volatility, risk is the permanent loss of capital whereas volatility is how the fund might move either in a positive or negative direction. Cash is close to zero volatility but there is considerable risk at the moment where the real returns are negative (therefore there is a loss of capital in real terms), bonds tend to be below 10% and equities above.

So for those needing access to money then cash is likely to be the best choice, whereas those prepared to sit and wait, historically, equities tend to offer the better long term returns but the movement in asset values can test the most patient investor.

For the funds we have reviewed the volatility between them ranges from 10% on the low side to over 17% on the high side. If you look at the performance of the more volatile funds this is greater than the funds with lower volatility, and therefore although the potential returns might be appealing the volatility might not! (Past performance is not an indicator of future returns)

The Holy Grail for investors has to be a fund with low volatility but with the ability to capture greater upside growth. The index fund we use as a benchmark has volatility around 8% and has been able to capture significant upside over the short term; over the long term active funds have proven their ability to significantly outperform.

In reviewing funds, the Premier Global Power and Water Fund has come onto our radar. It is not necessarily one that we would consider for two reasons, firstly long term performance has been patchy and its name appears slightly misleading. My initial thoughts were that this was an Ethical Fund and because of the long term performance, performance was compromised to fit an ethical mandate.

Upon meeting the manager, several things became clear – firstly the new management team have only been running the fund since 30 June 2012 and performance from this point has been strong, secondly this is not an ethical fund and performance is not being compromised, thirdly this is a truly global fund (albeit focusing on one sector) and fourthly the volatility is low at around 8%.

For these reasons we think it is a fund worthy of consideration for investors and in this update we want to explain more about the style of management and what the fund aims to achieve.

## **Who are the team behind the fund?**

The fund is co-managed by James Smith who took over the fund on 30 June 2012 and set about changing the fund from a pure technology growth play to a utility income play; prior to that he was assistant manager on the Utilico Emerging Markets Investment Trust. The co-manager is Claire Long who has worked on the fund since 2008 and previous to that worked at Rothschild and F&C.

## **Fund highlights?**

James Smith took over the management of the fund on 30 June 2012 and we have based performance from this date. This is important because the fund today is different to what it was before. Before its holdings were technology focused with a growth mandate, today it is focused on utilities with income and growth being the key mandate. In this volatile environment the combination of growth and income can be a powerful tool.

The fund strikes me as a recovery type situation where James and Claire have completely restructured the fund from where it was to what it is today. For this reason performance has to be based on effectively the 'new' fund. It is therefore very hard to judge in which periods the fund will do well and when it will lag because of the short period that the manager has been managing the fund. However, the performance this year provides a hint that perhaps in more volatile markets this fund can respond well.

The fund has four key objectives – a high, regular, growing and sustainable income, lower than average volatility, long term capital growth and globally diversified.

Picking up on some of these points we will aim to explain how the managers achieve these objectives. The portfolio is made up of three baskets of holdings; fixed interest, yielding equities and growth equities.

The number of holdings is relatively small at around 45 but what is interesting is that in some cases the holdings are blended. For example, Greenko is an Indian renewable electricity company – in this case the manager holds a bond which provides income and equities which provides growth.

Ecofin Water and Power Opportunities is another example – the fund holds convertible loan notes and shares in the investment trust which in turn provides exposure to a range of global utilities.

So for both Greenko and Ecofin the blend of assets provides the desired need for growth and income without compromise.

As a sector, utilities have significantly underperformed the global world index but this fund has significantly outperformed both indexes. We discussed how they achieve this. They explained there are three areas that they believe they can add value – firstly through asset allocation, secondly stock picking and thirdly by focusing on one sector.

Turning to selecting assets they explained that there is a macro overlay but this is not necessarily to do with the political environment. For example, the team currently avoids German Utilities where they feel the market is difficult to extract value preferring Italian utilities where the environment is more favourable and therefore there is value to be gained. Likewise in Latin America there are good countries and bad, so for example they would avoid Argentina because of government interference which increases and reduces potential future value.

## LWM Consultants Ltd

---

Talking to Claire one of the key components of this is understanding the regulatory process in each country. This sounds complex but there is commonality between countries. Interestingly the US is complex to invest because each state has its own regulation. So effectively there is balance between finding the right country which has a favourable regulatory environment and within that the right company.

This balance enables the fund to be globally diversified covering the US, Europe, UK, Emerging Markets etc.

To an extent growth and volatility go hand in hand and understanding the types of companies they like shows how they balance this.

The fund invests in both regulated and unregulated businesses as well as fixed interest investments. Regulated businesses have an allowable return and normally pay an index linked dividend (an example would be water companies in the UK where there is no competition). These seem like the perfect companies but if you take Spain as an example, the utilities charge an artificially low price but are subsidised by the government, however the government haven't been paying so effectively they have created a debt. Understanding this enables the managers to avoid 'bad' regulated businesses and focus on these what have the potential to deliver value.

Unregulated still have an element of regulated in that there are only a small number of competitors but in theory they can be competitive (an example in the UK would be gas and electricity suppliers). It's interesting talking to Claire and James because even within this you get an idea as to how they get value for the fund – so for example China Power has seen a reduction in coal prices of between 20 and 25% and therefore you would expect the price tariff to fall. In reality it only dropped by 3% meaning the margins were much greater and this has delivered significant upside.

In India OPG Power uses coal – the sector has suffered negatively for a number of reasons but primarily because India struggle to get coal out of the ground. The difference with OPG is that it is coastal based so coal can be shipped in. So although the sector is bad, it doesn't mean all companies within that sector are. There is therefore this constant search for mispriced opportunities and this is how they deliver additional value.

One of my concerns is a focus on one sector because if the sector is out of favour then it could impact on the performance of the fund. Potential investors will need to consider this before deciding whether to invest. On the opposite side of the argument clearly Claire and James have specialist knowledge of the sector and like any fund this is about picking the right company rather than any company, and they have been able to significantly outperform the sector. The fund also has a global remit and the team believe there are plenty of opportunities that they can invest in.

Initially my thoughts were that this would fit with a cautious investor but in reality it crosses all investors looking for global exposure within a blended portfolio. The only question mark is how the fund would respond in different economic environments; potential investors would need to make their own judgement on this. Those wanting more risk there is an investment trust version of this fund (Premier Energy & Water Trust) where there is a 70% overlap but the fund is more aggressive in its approach and has a larger exposure to large and small cap companies and emerging markets. The fund also focuses more on growth than income.

In summary this is a well-run global fund with low volatility. Two things for investors to consider are firstly how it will respond across different economic environments and secondly the focus on one sector.

# LWM Consultants Ltd

---

## Fund performance

Performance since the new manager took over the fund vs DB X-Trackers FTSE All World Ex UK, Threadneedle Global Equity Income Fund, Baillie Gifford Global Discovery Fund, Rathbone Global Opportunities Fund and Scottish Mortgage is shown below:

	2012	2013	2014	Since new manager*
<b>Premier Global Power and Water Fund</b>	4.57%	19.37%	18.38%	19.70% p.a.
<b>Threadneedle Global Equity Income Fund</b>	6.58%	21.58%	3.49%	14.47% p.a.
<b>Rathbone Global Opportunities Fund</b>	5.95%	26.09%	0.90%	14.74% p.a.
<b>Baillie Gifford Global Discovery Fund</b>	7.85%	55.76%	1.72%	27.99% p.a.
<b>Scottish Mortgage</b>	14.52%	39.80%	10.71%	30.16% p.a.
<b>DB X-Trackers FTSE All World Ex UK</b>	5.39%	20.98%	7.31%	15.53% p.a.

\*Manager started 30 June 2012

*You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.*

## Conclusion

In the global sector this fund is likely to appeal to investors looking for a globally diversified fund with low volatility. It is unlikely to have massive spikes in performance which other funds might do and will provide some downside protection.

*The source of information in this note has been provided by Premier and is correct as at September 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.*