

Company profile:

Guinness Asset Management

Investors have a tremendous opportunity to benefit from a combination of the Government's recently introduced Feed-in tariffs and the tax breaks of Enterprise Investment Schemes. **Rob Griffin** talks to Shane Gallwey of Guinness Asset Management



Shane Gallwey

Fund Manager

Guinness Asset Management

“

We'd like to raise £10m for the fund and have it invested in five to 10 projects within 12 months.

”

Guinness Asset Management believes its new Renewable Energy EIS fund will provide people with a great opportunity to put their money into what is fast becoming one of the most exciting areas of investment.

The fund, which was launched at the beginning of December and will be open to investment until April 2011, has been set up to back companies that qualify for the Feed-in Tariffs that were introduced by the Government earlier this year.

The new regime, which came into effect on April 1st, 2010, rewards companies that install renewable energy generation projects with a guaranteed minimum price for the electricity produced for a period of between 20 and 25 years.

There are two tariffs that apply: A Generation Tariff which is fixed for each unit of electricity produced and an Export Tariff for each one exported to the electricity grid. The technologies covered, meanwhile, are solar photovoltaic, wind, hydro, anaerobic digestion and microCHP (micro combined heat and power).

The primary benefit of these tariffs is the visibility they provide on the revenue streams for qualifying projects, points out Shane Gallwey, who recently joined the Guinness team in order to head up its EIS investment management operations.

“This predictability means that you have investments that are very attractive in their own right,” he explains. “When you also factor in the benefits of qualifying for Enterprise Investment Scheme tax breaks it is a compelling proposition for investors.”

The EIS tax breaks are certainly attractive. Firstly is the 20 per cent income tax relief that can be enjoyed by any individual investing up to £500,000 in a tax year, while new legislation allows the entire allowance to be carried back to the previous tax year.

Provided the shares are held for a minimum of three years there is also no Capital Gains Tax to pay, while investors can roll over any existing CGT liabilities they

incurred in the three years prior to investment. These tax reliefs mean that an investment of £100,000 that qualifies for 20% income tax relief and 28% CGT deferral will have a net cost to the investor of only £52,000.

EIS qualifying companies fall outside of a person's estate for inheritance tax planning – provided the investment has been held for two years – and if shares in one of the investee companies are sold at a loss this can be offset against income tax or capital gains tax.

“Feed-in tariffs have no correlation to equity, debt and property markets which makes them a welcome addition to an investment portfolio, and they increase in line with inflation each year.” adds Mr Gallwey. “Overall we believe this is a very interesting investment category that really hasn't been available for UK investors in the past.”

Of course, investors also need to bear in mind that the rates of taxation and associated benefits are based on current legislation and are subject to change. This also means that such investments won't be suitable for everyone.

That said there are plenty of myths surrounding this area that need to be debunked, according to Mr Gallwey. The first concerns worries about the sustainability of feed-in tariffs, especially given the fall-out from the Government's spending review.

“There was a fear that it may simply pay lip service to renewable energy and then introduce cuts but it hasn't made any such changes,” he says. “In addition there was a suggestion that tariffs would be constantly decreasing over time.”

He suggests this confusion stems from the way the tariffs are set up to come in at a lower rate once technology improves and the market becomes more mature.

For example, a project set up in 2013 will qualify for a lower tariff than a similar scheme that is operational today. However,

the level of tariff individual projects receive will not change during the life of the agreement.

The objective of the Guinness Renewable Energy EIS Fund, which has a target size of £10m, is to invest in UK energy generating companies that qualify for Government Feed-in Tariffs.

"We're looking to put our money into companies that qualify in areas such as hydro, solar and wind," explains Mr Gallwey. "As part of risk management it will also be important to maintain a diversified portfolio across the different technologies."

Therefore, if the Government decides to reduce levels of support and enthusiasm for one particular technology, the fund will still have access to other renewable energy projects across its range of holdings.

"Our investment process involves us talking to a variety of developers and the widespread contacts of our experienced team provide us with an impressive degree of access," points out Mr Gallwey. "We see it as a real benefit to us as a business."

A key factor in the selection process will be partnering with established development companies and contractors. Experienced solar and wind contractors have been building projects on the continent for many years. An additional consideration is to establish what stage individual projects have reached in the planning permission and the environmental assessment processes.

"We prefer to invest in companies that have already been granted planning permission because the big risk for renewable energy projects is not receiving the go-ahead," he explains. "The way we get people's money working for them quickly is through backing projects that are ready to utilise that money."

Investing in companies that use little or no debt to enhance returns is another prerequisite, as well as having a diversified portfolio of projects and seeking pre-investment approval from HMRC.

"It's very important to make sure the projects will be EIS qualifying at the time the investment is made," he explains. "Our thorough due diligence process also includes reviewing the documentation, the planning and the projects in great depth."

So what are the aims for the next few months?

"We'd like to raise £10m for the fund and have it invested in five to 10 projects within 12 months," says Mr Gallwey. "The plan is to then exit after the EIS qualifying period is up so we'll be looking at possibilities in that regard in advance."

There are various exit routes.

"It could be possible to exit the whole portfolio together because although the underlying investments aren't linked they are all electricity generating companies and

Guinness Asset Management

Shane Gallwey heads up Guinness Asset Management's EIS franchise. He has, over the last twelve years, launched, advised, invested in and sold a multitude of EIS businesses. Most recently as a director of Northland Capital Partners, where his key focus is advising growth companies on capital structuring, with an emphasis on tax efficient funding via EIS and VCT for a range of small cap technology and alternative energy companies.

From 2002 to 2006 Shane was based in Gibraltar with Trafalgar Financial Futures in Gibraltar. Previously he spent six years at HSBC Investment Bank, where he worked in both Specialised Finance and Corporate Finance, with a focus on advising growth companies.

Shane holds an MA from the University of Edinburgh, and is a CFA charterholder.

GUINNESS

ASSET MANAGEMENT LTD

their revenue visibility will be particularly attractive to companies and funds looking for generating assets or stable cash flows," he suggests. "A relatively strong secondary market already exists for these assets in Europe."

The aim will be to generate a net return of 10-12 per cent each year although this will be dictated by the costs of individual project, for example, a hydro project near a grid will require less capital expenditure to set up than one that is five miles away.

"You need to be very selective and pick

projects that will give the highest returns," adds Mr Gallwey. "That is why we'll be carefully considering all these factors when projects are chosen for investment by our team."

In that respect London-based Guinness Asset Management, which was launched back in 2002, is in a terrific position. As a specialist fund group it has always had a focus on energy and alternative energy, and boasts an experienced investment team.

"We have got a very experienced team that has a tremendous amount of knowledge in areas such as the renewable energy space and private equity," says Mr Gallwey. "It is quite a formidable line-up of individuals which should give comfort to investors."

First up is Tim Guinness. As founder and Chief Investment Officer of Guinness Atkinson Funds in the US and of Guinness Asset Management in the UK, he is a logic-based value investor with nearly 35 years of experience.

Then there is Andrew Martin Smith who has more than 30 years' experience in the financial services industry and currently works on private equity related matters with Guinness Asset Management.

Howard Flight, meanwhile, is currently the director of businesses with over £10bn of funds under management. He was the co-founder of Guinness Flight and served as a member of the shadow treasury team when in parliament between 1997 and 2002.

Shane Gallwey heads up Guinness Asset Management's EIS franchise, having spent the past 12 years launching, advising, investing in and selling a multitude of EIS businesses.

Tom Hill-Norton has spent most of the last four years originating, executing and managing private equity investments in clean energy and emission reduction projects in emerging markets. Edward Guinness, meanwhile, is co-manager of the Guinness Alternative Energy Fund, having joined the business in 2006.

Finally we have Matthew Page who joined Guinness Asset Management in 2005 and is currently co-manager of the Guinness Alternative Energy Fund. Previously he was on a graduate scheme run by Goldman Sachs.

The combination of a hugely experienced team, the benefits of putting money into companies that qualify for the tariffs and the tangible tax benefits offered by EIS investments make this fund a compelling opportunity for investors.

"We strongly believe that combining long term, inflation linked feed in tariffs with EIS tax relief creates an attractive investment opportunity – and that it will be a product that enables Advisors to differentiate their offerings," adds Mr Gallwey.