

*In these quarterly updates for the Best Ideas portfolios we showcase some of the underlying themes to which investors gain exposure through our choice of unconstrained fund managers. In this issue we take a look at the future of energy.*

## FUTURE ENERGY

The future energy system is being reshaped – increasing digitisation, electric vehicles and fighting climate change are perhaps the best known reasons. These influence the composition of demand – more towards electrification and away from burning fossil fuels. In total, however, global demand for power is expected to grow by 58% to 2040 (2% per year), so the supply side of energy needs significant investment across the energy stack.

By 2040, Bloomberg New Energy Finance expect that 72% of new energy capacity and 34% of global electricity generation will come from renewables, up from 5% today. Battery storage could be the answer to renewables' biggest challenge – its intermittent nature (the sun doesn't always shine). If current trends in manufacturing continue, Bloomberg estimate small-scale battery storage in households and businesses could be worth as much as \$20 billion per year, which is roughly the same as the UK's National Grid today.

Energy consumption is becoming less intensive as people, homes, businesses and transport become more energy efficient and as the cost of renewables falls. McKinsey estimates this could save the global economy \$900 billion to \$1.6 trillion in 2035 – equivalent to the annual national output of Indonesia or Canada. Two thirds of this comes from reduced

demand through efficiency gains while the remainder comes from cost savings through adoption of new technology.

It is possible the grid could transform beyond pure supply, seeing it become a platform for maximising the value of distributed energy sources and other grid edge technologies like smart demand management and advanced meters (hmm... sound Uber-esque to you?). The World Economic Forum highlights a variety of opportunities but crucially, there are some seismic changes to the regulatory environment needed to allow the grid to reach its full "distributed network" potential.

## 1 RENEWABLES

Global coordination around climate change and government support (through subsidies and regulation) are the main causes for renewable energy having gained acceptance and cost competitiveness through technological advances. Significantly, in December 2015 at COP 21 in Paris, members of the UN Framework Convention on Climate Change reached an agreement to accelerate efforts toward a sustainable low carbon future. A year later in November 2016, the EU revised its goal of fulfilling 20% of its total energy needs with renewables by 2020 by increasing the goal to 27% by 2030.





Geographic concentration of oil supply and other fossil fuels are additional drivers behind a focus on “energy security” and the desire to achieve energy independence for many countries. Despite headlines that would lead us to believe otherwise, the biggest producer of renewable energy is in America.

**EXAMPLE HOLDING:**  
**NextEra Energy**



NextEra Energy is a leading clean energy company based in Florida with customers and power facilities across the USA. It is the world’s largest generator of renewable energy from the wind and sun. Recognising renewables are insufficient on their own, the company also has traditional power stations and is investing in battery storage facilities (with active systems in 7 different states). Of the total electricity generation capacity at the end of 2016, 35% was comprised of renewables, up from 22% in 2010.<sup>1</sup>

<sup>1</sup> Source: Bloomberg

**FUND IN FOCUS:**

**First State Global Listed Infrastructure**



NextEra Energy is a top 10 holding in the First State Global Listed Infrastructure fund. The fund is an actively managed portfolio focused on investing globally in core infrastructure such as energy utilities, pipelines, air, sea and land ports, telecommunications, roads and railways.

## 2 SMART ENERGY

Our energy consumption is expected to grow by 50% by 2050 as a result of urbanisation, industrialisation and digitisation. Electricity demand is growing twice as fast as demand for other energy sources. We are living in an increasingly connected world. By 2021, Cisco Systems estimates there will be 3.5 times more internet-connected devices in the world than people.

All this means that if we are to solve the problem of global climate change, our electricity use must become much more efficient. Buildings and industry represent huge markets for energy efficiency savings, and the combination of mobile and cloud computing, sensors and big data analytics provides the opportunity to realise these efficiencies through smart technology.

**EXAMPLE HOLDING:**  
**Schneider Electric**



Schneider Electric is leading the digital transformation of energy management and automation. Their software and consultancy services make it possible for an ‘Internet of Things’ to seamlessly connect, collect, analyse and act on data in real-time delivering enhanced safety, efficiency, reliability, and sustainability. Their solutions are tailored to the end market, be it building control, data centre, industry or the grid. They have worked with companies across sectors from food & beverage, electric utilities, water plants, hyper-scale cloud providers to traditional oil & gas.



#### FUND IN FOCUS:

#### Oyster Continental European Selection



Schneider is an investment held by SYZ's Oyster Continental European Selection fund which runs a highly active stock picking process, in a concentrated portfolio of the most attractively priced growth opportunities in Europe.

### 3 BATTERY REVOLUTION

Given growth in our mobile and interconnected devices, the expected surge in demand from electric vehicles and development of battery farms to provide stability to the grid, the investment case for batteries is obvious. There are a number of manufacturers who recognise the trend, each competing for market share: LG Chem, NEC, BYD Company and of course the partnership between Tesla and Panasonic.

Currently, Lithium ion based batteries are the single most popular kind, especially for small consumer electronics. There are, however, a variety of shortcomings, not least being the high cost for the amount of energy stored. That means there is a range of newer companies in the race for developing competing battery technology.

All of them, however, need the raw materials going into the batteries.

#### EXAMPLE HOLDING:

Umicore



The potential benefits of these (currently lab based) technologies will be to reduce the cost, size, weight or time to recharge.

Umicore has built its business around the supply of the cathode material in batteries, designing its products for the specific purpose required. One in five Lithium ion batteries ever produced for portable electronics contains Umicore materials.

#### FUND IN FOCUS:

#### Impax Environmental Markets



Umicore is a top holding in the Impax Environmental Markets fund which focuses exclusively on companies operating in environmental sustainability.

For details of all the funds currently held in the Best Ideas portfolios please visit:

[eqinvestors.co.uk/best-ideas](http://eqinvestors.co.uk/best-ideas)



## Next steps

You can view factsheets and invest online via the EQ website. For other questions and enquiries please contact your EQ adviser or visit:



[eqinvestors.co.uk](http://eqinvestors.co.uk)

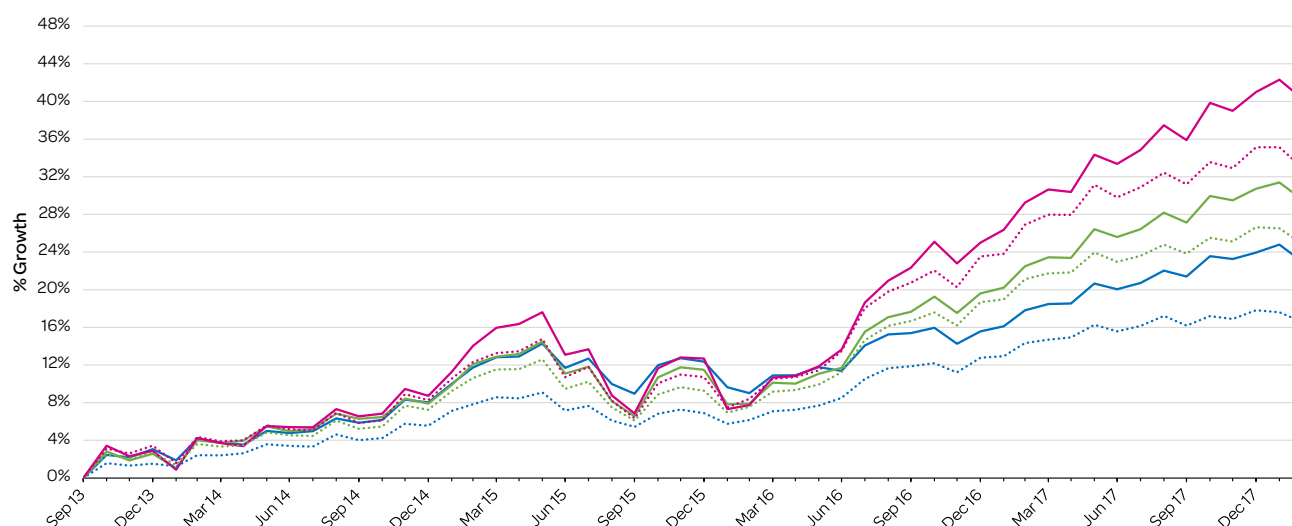


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Cumulative performance since inception 30/09/2013 to 28/02/2018



Annual performance		Mar 17 - Feb 18	Feb 16 - Feb 17	Mar 15 - Feb 16	Mar 14 - Feb 15
Best Ideas Cautious	—	4.49%	8.07%	-2.44%	7.28%
ARC Cautious *	...	2.02%	7.71%	-1.56%	5.28%
Best Ideas Balanced	—	5.90%	13.51%	-3.73%	7.78%
ARC Balanced *	...	3.21%	12.61%	-2.78%	6.77%
Best Ideas Adventurous	—	8.65%	19.97%	-5.53%	9.39%
ARC Steady Growth *	...	4.90%	17.07%	-3.50%	7.62%

### Risk warning

**Past performance is not a guide to future performance.** The value of investments and the income derived from them may go down as well as up and investors may get back less than they originally invested. The Best Ideas Portfolios are available in **seven** different risk profiles, of which **three** are shown here. Inception dates may vary: please see factsheets for full details.



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