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RT FINANCIAL PLANNERS LTD

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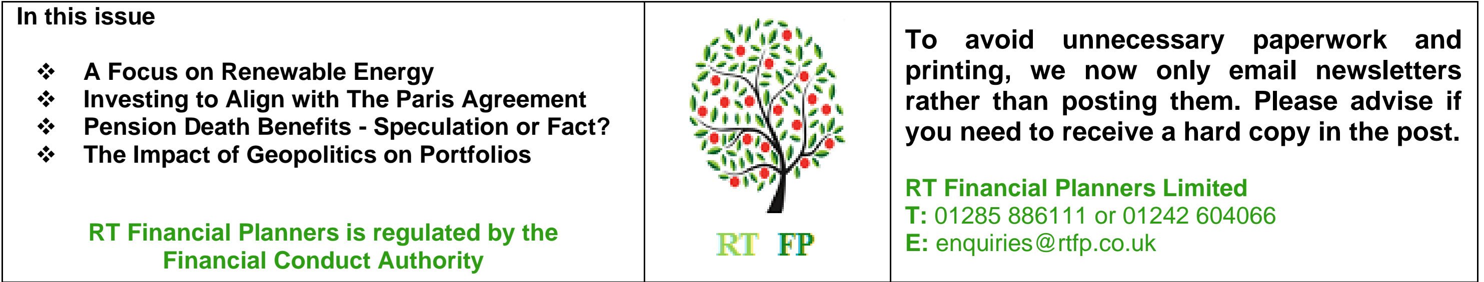

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Renewable Energy – Why Have These Stocks Plunged?

In recent times, it has undeniably been very painful to hold renewable energy stocks but it is our belief that this remains an area that offers great growth potential as we make the transition to renewables, albeit at a slower pace than previously expected.

The most crucial factor in driving the usage of renewable energy is the concern about the reduction of greenhouse gas emissions, and hence the need for a secure alternative provision of energy (bearing in mind the aversion to, and lack of progression in the application of traditional nuclear power).

Governments of various developing and developed countries have focused on promoting renewable energy sources. However, developing new resources requires large initial investments to build infrastructure. These investments increase the cost of providing electricity, especially during early years. This factor is restraining the growth of the renewable energy market during these undisputedly difficult economic conditions for businesses.

The renewable energy sector is highly dynamic and subject to rapid changes, so here are just some key trends and factors influencing the future outlook for renewable energy:

- Continued Growth: The renewable energy sector has been experiencing significant growth for several years, and this trend is expected to continue longer term.
- Policy and Regulations: Many countries are providing incentives and subsidies to encourage its adoption.
- Technological Advancements are expected to improve efficiency and reduce costs further.
- Energy storage technology is becoming increasingly important for the sector, to enable the storage of excess energy generated during periods of high production for use during periods of low production or high demand.
- Electric Vehicles (EVs): The growth of the EV market is closely tied to the renewable energy sector, and their adoption can further promote the transition to renewable energy sources.
- Investment and Financing: Renewable energy projects require significant upfront investment, and continued access to financing and investment is critical for the sector's growth. A positive for the sector is that many investors are increasingly interested in sustainable and green investments.

Despite the positive outlook, there are still challenges to overcome, but we do believe that despite the recent plunge in values of these stocks, it is a sector that warrants continued inclusion in portfolios.

How Funds Are Aligning With The Paris Agreement

To continue with the sustainable investment theme, we have looked at how funds are aligning with the Paris agreement of which the UK is a signatory, and the overarching goal of which is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels." Specifically, the UK have pledged to achieve net zero in GHG emissions by 2050.

There is little dispute amongst realistic commentators that the need to achieve net zero is critical and, this has resulted in industry wide guidance under the Net Zero Investment Framework to asset managers on decarbonising investment portfolios. The fund management industry has an important role to play, as, it is vital that funds adapt to make every effort to invest in companies that are either aligning their business or already leading the way with the achievement of this goal – and moving towards it in a measurable manner.

In aligning their portfolios, fund managers can take two complementary approaches. They can invest on a "Top Down" basis which focuses on portfolio decarbonisation in a science based way – for example, by setting decarbonisation targets whereby the portfolio will have a "Weighted Average Carbon Intensity" typically 50% below that of the benchmark whilst aiming to decarbonise by a rate of 7% year on year – this is calculated in line with the UK's 2030 pledge.

At a recent presentation, fund manager M&G indicated a preference for the "Bottom Up" investment approach, which looks to drive asset alignment. Instead of striking companies' weightings down who are not yet Paris aligned, fund managers will effectively look at each company's footprint today and their potential to reduce emissions. They will assess their carbon reduction plan, and seek to monitor the company's progress in line with their own science based targets. In 2018, the Science Based Targets initiative (SBTi) was launched to provide guidance and set a standard known as the industry's 'gold' in target commitment, development & achievement. Fund manager's will also seek to carry out in depth research and expect certain standards in terms of disclosure, governance, monitoring of each holding's targets, all the while assessing what this means for the value of the business. This more involved approach will reap rewards exponentially as it extends to the company's wider network of influence in reducing GHG emissions.

In conclusion, it is increasingly apparent that mainstream funds as well as ethically branded ones need to take account of this matter going forwards.

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Pension death benefit changes

Before going any further, we must stress that much of the content of this article is currently unconfirmed speculation. We do not usually speculate on these matters, but this change feels as if it one that is fairly likely to materialise and therefore one that can be at least considered in any planning.

With the Lifetime Allowance (LTA) being abolished after April, attention is turning to how the new pension rules will operate, and in particular, there is much speculation surrounding the taxation of pension death benefits. HMRC have issued draft legislation containing new allowances which cap the amount of lump sums which can be paid tax free. But accompanying that draft legislation was a policy paper which indicated that they may plan to tax income from inherited drawdown and annuities purchased from funds where the member died before age 75 (these are currently passed on tax free).

This is still subject to consultation, but the draft legislation was accompanied by a policy paper which made proposals for the treatment of funds designated for drawdown or used to purchase an annuity.

What we know is that the cumulative cash value of all tax free cash and other lump sums paid out during the member's lifetime or on death will be tested against a new allowance called the '**Lump Sum and Death Benefit Allowance**' (LS&DBA). This will be set at the same level as the LTA - £1,073,100 for those who don't have any of the LTA protections (individuals with LTA protection generally have a higher protected limit).

Essentially, there are no changes to how death benefits are taxed where death occurs after age 75. But for death of a member under age 75, lump sums paid out to beneficiaries within two years of death, falling within the allowance will be tax free but anything exceeding the allowance will be taxed at the beneficiary's marginal rate of income tax, which is different than the fully tax free status currently in place.

The policy paper suggests some crucial changes to the taxation of death benefits taken under inherited drawdown or used to purchase an annuity. Where the funds used come from the deceased member's uncrystallised savings, it is proposed that any income taken by a beneficiary will be fully taxable as their income, rather than being tax free as it is now. Unfortunately, the policy paper doesn't deal with how such payments will be taxed if they come from the deceased member's crystallised savings, so we will have to wait and see. However, with benefit crystallisation events becoming largely obsolete, it is hard to see a motive for retaining separate tax treatment for death benefits paid from crystallised and uncrystallised funds.

A further unanswered question relates to whether drawdown funds already with tax free status will be protected, and from what date?

Whenever changes are rumoured, there may be a temptation to pre-empt legislation, perhaps withdrawing all tax free amount now, but we must bear in mind that withdrawing money now may secure beneficiaries' income-tax free benefits (or it may not) and it may well incur costly inheritance tax charges.

How Major Political Events Can Affect Your Portfolio

As an investor, you may know that geopolitical risk is the uncertainty that arises from political, economic and military factors that influence the relations between countries or regions. Geopolitical risk can create volatility and uncertainty in financial markets, which, in turn, affects prices and returns. Some examples of major political events that can have a significant impact on your portfolio include:

- **General elections**, which can change the expectations and preferences of investors, alter the economic outlook and growth prospects of the country or region, and create uncertainty and volatility in the financial markets.
- **Wars**, which can disrupt the supply chains and trade flows of the countries or regions involved, increase the geopolitical tensions and risks in the world, and trigger a flight to safety or quality among investors.

We, as your adviser, together with portfolios and fund managers naturally take steps to mitigate some of the effects of major political events by being diversified across different asset classes, regions and sectors. However, diversification does not eliminate all the risks, and some events may have a global or systemic impact that affects all assets and markets.

Managers will continue to monitor the political environment and adjust your portfolio's underlying assets accordingly, to take advantage of opportunities or protect against threats. They do so using the following techniques:

- Staying up to date on the current trends and topics in geopolitics by using various sources of information, such as news outlets, government & international organisations, think tanks and research institutes, and financial analysts and experts.
- Considering how your portfolio is exposed to different variables, such as the strategic and tactical asset allocations, style tilts and liquidity levels, and how those factors contribute to your portfolio performance.
- Understanding how your portfolio might perform under different scenarios, such as new or worsening conflict, a trade deal being signed, or a change in governing direction.
- Look to capitalise on 'cheap' opportunities as market values fall. Considering also whether conviction and 'house beliefs' need updating.

Apart from the fact that recent events in the Middle East are very concerning and upsetting from a humanitarian point of view, they also cause additional anxiety when considering investments values. But (to strain the metaphor somewhat) it is key to remind ourselves that attempting to win short term battles (knee-jerk trading) may result in losing the long term war (long-term wealth creation).

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