

Niche outlook becomes way of life



Fund Strategy - 6 June 2011 | By Shaun Cumming: The manager of the Jupiter Green investment trust is keen to exploit the increased appetite for environmental products and services, including a waste management firm operating in Scotland.

Charlie Thomas, the manager of the Green investment trust and head of environmental investment at Jupiter, has a passion for green investment which spills over to his leisure time. At the weekend he tends beehives from which he harvests honey. He also has solar panels on the roof of his home. Thomas has noticed a change in the way environmental investing is developing. He is implementing changes to the two funds he manages to adapt to the evolving sector.

The Green investment trust has run for many years using six themes under which investments are categorised, which are also in place on Jupiter's other environmental vehicle, the Ecology fund. These are being reduced to three global themes which Thomas says better reflect the changing environment the sector is facing: resource efficiency, infrastructure and demographics.

Despite the changes there are no alterations to the trust's investments. It might seem odd to flag changes that will have little material impact, but Thomas argues that environmental investing is about to undergo a long-term shift in direction.

He says: "What were effectively 'nice to have' lifestyle choices are becoming 'must have'. We are moving out of the fringes and into the mainstream, which is happening throughout the whole area of environmental investing."

Using wind turbines as an example, Thomas says an investment opportunity becomes more interesting if it solves more than one environmental challenge. "Apart from providing energy, wind turbines do not use much water when compared with conventional power stations which use vast amounts of water for cooling. Once we realise that it is about both energy and water efficiency, then it becomes a much more powerful investment case," he adds.

Thomas takes a long-term view of environmental investing even though the sector is changing rapidly. New technology is continuously being developed to devise innovative solutions to environmental problems.

Several factors can influence whether an environmental company will succeed or fail. Government regulations are important as they can dictate whether or not a product or service will be widely used - a factor that changes depending on each particular government's environmental policy.

The portfolio is diversified through small and medium-sized companies. Holdings are capped at 5%, but there are many that have smaller allocations. Thomas says this is because of the volatility of small companies in the environmental sector.

"New companies in the environmental sector either do very well or they fail. For this reason, any new holdings coming in to the portfolio are given small allocations," he adds. One of Thomas's favoured holdings is Shanks, a waste solution firm. The company is taking advantage of environmental regulations in Scotland.

Because of rising landfill taxes in the country, Thomas says it has become cheaper for the local authority to recycle waste than it is to put it in landfill. Thomas uses a bottom-up company evaluation approach when choosing stocks. Monitoring the macroeconomic conditions is also important so that changes that apply to the sector can be spotted early.

The fund's top holdings are "topped and tailed" regularly depending on several factors which indicate that it is time to make such a move. According to Thomas, reasons to sell a holding include management changes, if the technology is superseded, or if the firm is not producing adequate returns. It seems odd to have two funds managed by the same team, which both have similar holdings in the same sector.

Thomas says the main difference between the two is that the investment trust is managed slightly more aggressively.

He says: "The investment trust is slightly more small-cap biased. We try to make stronger views with some of the names in the investment trust, which is more nuance rather than fundamental. It's a closed ended structure and under that basis you manage it differently."