



Market Commentary (cont)

Recommended Investment:

John Laing Environmental Asset Group 104p, 5.9% yield

John Laing Environmental Asset Group (JLEN) is an investment trust listed on the Main Market of the London Stock Exchange.

JLEN invests in a diversified portfolio of environmental infrastructure projects generating predictable and stable revenues and aims to provide investors with a sustainable dividend paid quarterly, whilst preserving the capital value of its portfolio. JLEN is targeting a net IRR of 7.5 to 8.5% and a dividend of 6p per share, increasing in line with inflation.

JLEN's Environmental infrastructure projects include the generation of renewable energy (onshore wind energy and solar photovoltaics), the supply and treatment of water and the treatment and processing of waste. Wind and Solar projects are supported by the UK's commitment to support low-carbon electricity targets and the waste and waste water processing projects have operating track records of more than five years and benefit from long-term contracts backed by the UK government.

These long-term projects with government-backed revenues mean that the trust benefits from the income security of the infrastructure sector but with a lower current premium to NAV. Broad infrastructure investment trusts have an average premium to NAV of 19.1%, which has resulted in their yields falling to an average 3.9%. JLEN, on the other hand, yields 5.9% and is trading on a far lower premium of 8.2%.

Like infrastructure funds, JLEN derives a large chunk of its revenue from private finance initiative (PFI) contracts (23%), which offer long-term, government-backed sustainable income. That weighting also means that the trust is far less vulnerable than other renewable energy infrastructure trusts to the movement in the energy spot price.

JLEN also has a third of its portfolio in waste and water assets which have no revenue linkage to the wholesale power price, leading to the fund having the lowest sensitivity in the sector. In addition, 41% of its portfolio is in solar assets and 37% is in onshore wind. Renewable energy generation can be highly variable but this mixture of solar and wind cushions it against concentrated risk in one sector where, for example, higher than expected generation from wind assets can offset lower levels of solar irradiation for a given period. To manage risk, no more than 15% of the net asset value will be invested in projects under construction, at least 50% of the portfolio by value will be based in the UK and no one single project will represent more than 30% of the NAV after acquisition.

Renewable energy assets also generate revenue from green tariffs in the form of feed-in tariffs for solar schemes and Renewable Obligation Certificates (ROCs) for wind energy. These are linked to inflation (RPI), meaning more than 75% of the trust's revenues are inflation-linked and a large chunk are government-backed. Although cuts to subsidies for green energy are a risk, they are unlikely to impact existing projects and the income attached to them. That is because any changes in the past have been forward looking and so have had no impact on the existing portfolio or the fund's short-term pipeline of acquisition targets.

In summary, JLEN is an interesting 'alternative' investment with a low correlation to the wider stock market and an inexpensive valuation. **Yielding 5.9%, we rate the shares a strong buy.**