News

Keeping Energy Live

There are layers of change happening in the energy sector, making it a fascinating area of opportunity

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A Conversation with Ben Leyland and Robert Lancastle
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Ben: Let's start with energy, which is integral to the economic system. The energy sector in the equity market is traditionally dominated by fossil fuel producers. Obviously, that's starting to have environmental consequences and so we need to find alternative sources of energy.

Rob: It's the layers of change that makes energy one of the more fascinating areas of opportunity. Around three years ago the prevailing view was that the only energy source that's going to exist in the long term is renewable energy and it’s marginal cost zero. Today, I think we’re more concerned about energy resilience, which means we can't just take the view that there's one way of looking after yourself.

Ben: Now, there's more and more attention being paid to energy security alongside the carbon footprint of energy usage. Fossil fuels have often come from geopolitically unstable parts of the world, and markets have not always cared about that, and people have turned a blind eye to it. But the attention being given to energy security is much greater since the invasion of the Ukraine by Russia. That highlighted the vulnerability of the west, particularly Europe, which is not self-sufficient in energy.

Rob: The narrative got so narrow that we were relying on one or two countries for the energy that went into our houses and businesses and looked after our country. The key when thinking about energy is the need for 'redundancy'. If we produced all the power for the UK from one item, whether it's one windmill, one nuclear power station, one gas power turbine, and they need maintenance or the line goes down or there's just a fault, when that one item is not working, there is no other power being produced. So, you need many layers of power production from different locations and sources. We need redundancy to make sure in all situations we have a secure energy supply and to maintain a robust economy.

Ben: The appetite and the political support for nuclear power as a low carbon source of base load power with high degree of energy security compared to fossil fuels is a very interesting change over the past two or three years.

Rob: Even Germany, probably the most anti-nuclear country of the last decade, is having to consider whether it was ever sensible to be solely reliant on a Russian gas pipeline and offshore wind. We need breadth of where we get our energy from. More countries, different sources. Yes, we need less carbon in those sources, but it brings back into the fold nuclear, which 10 years ago was left in the cold for understandable reasons. Where we've been investing most purposefully the past few years is in the underappreciated transition fuels that everyone gave up on but we think will play key roles for several decades still. This includes areas like nuclear resources and LNG infrastructure. The most extreme version of this being the ownership of a US utility that had 29 nuclear power stations that for a time were valued at zero.

Ben: One would think that you invest in the energy sector in order to get long oil. But we also see the hidden value in the downstream assets of generally the European oil majors. US companies typically are more pure plays on one business model than they are conglomerates like you find in Europe and Asia. But European oil majors, and particularly Shell, own very interesting downstream assets. We think these have long-term strategic value in a world dependent on new types of energy infrastructure, whether that's related to a hydrogen cycle and a hydrogen economy, or carbon capture and storage, or tools, pipes and wires in a variety of places.

Rob: The supply chains are also increasingly realising the importance of redundancy in the system as well. Now, we can't just get our uranium from Kazakhstan and Russia. We need to get it supplied from Canada. It can't just be gas from Russia, it may need to be LNG from the US. It needs to be not just one but two types of renewables.

Ben: Also, having positive exposure to the energy sector as a portfolio hedge against energy-price-led volatility in equity markets is something that we take seriously. 2022 showed the potential for energy price led inflation in the system is quite high. Now supply and demand are fairly evenly matched, but geopolitics or other factors could easily upset the balance. It's not hard to imagine a world where the oil price spikes above a hundred dollars, even if that's just for a short period of time. That could cause havoc with both stock markets and the economics of a lot of businesses.

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