



Enabling the energy transition: inside the TM Gravis Clean Energy Income Fund



William Argent and Shayan Ratnasingam provide an overview of the TM Gravis Clean Energy Income Fund and its focus, before providing some insights into the market backdrop, discussing the Fund's performance and providing an outlook for the sector.



What is the investment objective of the TM Gravis Clean Energy Income Fund?

The TM Gravis Clean Energy Income Fund is designed to provide exposure to clean energy infrastructure assets – predominantly low carbon and renewable energy generation assets – through a portfolio of global listed securities. The Fund will also invest in ancillary infrastructure such as transmission networks and battery storage. It has an income focus with a target yield of 4.5%. The trailing 12-month yield is currently just shy of 6%*.

Over time, the make-up of the portfolio has evolved. Having begun life predominantly invested in solar and wind assets, more recently, hydroelectric generation and energy storage have featured more strongly as they are a critical part of the infrastructure story to harnessing more renewables.

As investors, we like contracted or visible revenue streams: stable cash flows that are underpinned by subsidies and renewable obligations certificates, and which are not cyclically sensitive. This means they are able to produce strong income in the form of dividends.

Another strength of the portfolio is the strong counter parties used by many of the underlying companies. These are the off takers of the renewable energy that's produced. These businesses play a critical role in the energy transition as we switch from a centralised, conventional fossil fuel-based system, towards a more decentralised, localised system with smaller generation assets, which are spread more widely.

How is the political environment impacting the transition to clean energy?

We are undergoing a fundamental change in our energy system and energy networks. Both regulation and legislation will play a key part in helping reach certain milestones.

For example, in Q4 2024, the UK released its Clean Power 2030 plan for a clean energy grid by 2030. France then followed, announcing a similar strategy for climate energy change over the next decade.

The UK-listed renewables sector was also given a boost when the UK government rejected a move to a zonal pricing model following the Review of Electricity Market Arrangements (REMA). In doing so, the government removed another significant source of uncertainty for the renewable energy industry.

By the end of 2025 we are expecting announcements from regulators in both the UK and Spain on how much electricity transmission network companies can invest to align with national goals of renewable energy integration and grid resiliency.

Going into 2026, we are expecting the UK and EU to harmonise their Emissions Trading Scheme (ETS). The linking of the two schemes could allow EU ETS allowances to be used for compliance in the UK ETS, and vice versa, which could then in turn support efficient UK-EU trade and reduce the costs to both the UK and EU of meeting decarbonisation goals.

In the US, Clean Energy Tax Credits have been reformed under 'one big, beautiful Bill', and put into law. While it's disappointing the US has not maintained



its momentum towards renewables and has instead chosen to proceed with a more diversified energy mix, it is a more positive outcome than initially suggested and has given the market some much-needed clarity on US energy policy.

As a reminder, under the previous Biden administration, the Inflation Reduction Act for tax credits was introduced. The two main credits are the investment tax credit and the production tax credit and investors in the sector have the option to invest in or to benefit from either to accelerate the development of renewable energies. Essentially, the new bill has brought forward the cut-off date for projects qualifying for these credits by five years and grandfathered projects that have started meaningful construction 12 months after the bill came into effect.

Having spoken to many of our companies over the last few months, they're pretty confident that their supply chains are secure and the projects are on target to receive the credits by the respective period. It's also important to note that this does not affect operational projects, which are the mainstay of the Fund's portfolio.

How is the macroeconomic environment impacting the sector?

Looking at interest rates first, we've obviously had a pivot in key markets. Yields, however, are sticky. Both the 10-year US and UK yields are still fairly elevated and relatively range-bound.

More rate cuts and a fall in reference yields would certainly be beneficial and provide more of a tailwind. This is because many of the companies in the Fund have very long dated, long-duration cash flows. A lower rate environment would help both the present value of those cash flows, and the relative attraction of long-dated cash flows in respect of yield.

Another trend to highlight is the continuation of M&A activity in the sector. Gravis has been quite vocal about the fact that we think the broader sector derating has been overdone, and if public markets do not rate these companies appropriately, then institutional long-term money or private equity will step in. And that is exactly what has happened.

For example, Innergex Renewable Energy is being acquired by CDPQ, and Harmony Energy has been acquired by Foresight Group at a takeover price that was in line with net asset value (NAV), and a significant uplift on where the shares had been trading. This point is important because when companies are acquired at NAV, or at modest uplifts to NAV, it corroborates

valuations and not just for that company – it also provides a strong read across for direct peers.

How has the Fund performed?

After a period of relative underperformance since the latter half of 2022, things have started to improve, and the Fund is up 9% year to date**. Government policy, M&A and falling interest rates have all played a part, as has the fact that the Fund is predominantly invested in operational projects paying out regular income and which are largely unaffected by the changes in policy we've seen in the US. In contrast, performance of manufacturers within the renewable energy space, has been much more volatile as they are more sensitive to the narrative around tariffs, and trade wars.

We won't forecast the direction of capital markets, but we would think that this strategy would perform relatively well should there be a risk off trade, a return to people seeking yield, or more defensive characteristics.

The Fund also has grown its discrete annual distribution each year since launch. In 2025, while we are still generating very strong income streams and the Fund's income is attractive relative to other asset classes, we will likely see a hiatus in that trend due to M&A. A key example is Atlantica Sustainable Infrastructure Capital. A high conviction holding in the Fund since launch, it was lost last year to an acquisition. We will look to return to that growth in the annual distribution in the future.

How is the Fund positioned?

Again, due to M&A, there have been a few changes to the top 10 holdings. Brookfield Renewables has moved up higher in the pecking order, as has Northland Power. The latter is a name that's been in the Fund for a very long time but has always been fairly firmly rated. We've been given the opportunity recently to increase the position in that stock at a far higher yield than is typical.

In terms of geographic exposure by listing, we still have a strong skew to our core markets of North America, Europe and Australasia. Canada and the US are both slightly lower than they were at the turn of the year, while exposure to Italy has increased after the addition of Terna, the national transmission system operator, which brings with it a nice yield, albeit not quite at the levels that we have lost through companies being acquired.

What hasn't changed is the overarching bias of the portfolio towards operational energy infrastructure.



What is the outlook for the sector?

Since the start of the millennium, energy demand has been pretty flat in the US. While you might have expected it to increase with its strong economy growth, it's important to remember that during this period, the US has moved from a manufacturing to a service-led economy. Along with this change, we've seen efficiency gains in the electricity networks and the way that we consume energy. Hence flat demand. This picture is broadly the same in other developed economies, but if you look at China, for example, over the same period, electricity demand has outpaced GDP growth due to globalisation and moving manufacturing lines.

Going into the 2030s and beyond, forecasters are expecting a significant acceleration in energy demand, driven by data centre growth, developments in artificial intelligence, electric vehicle growth, and the electrification of heating and industry. There is therefore huge potential for renewables going forward. Demand should trump policy – and yes, the pun is intended! The President's own ambition for the US to be an AI superpower requires a lot more electricity.

As we know, the current US administration is focused more on fossil fuel-based systems, as well as nuclear. However, it will struggle to get these new systems in place quickly and the increase in demand is imminent. In contrast, solar, onshore wind, and battery storage can be deployed relatively quickly. What's more, their supply chains are already available. So, while the US transitions for into its new energy mix, renewables can act as a bridge towards a new energy system.

Remember also, we're investing globally and when we think about Europe, there are still very firm commitments for developing clean energy resources and a lot of momentum behind clean energy right now.

The TM Gravis Clean Energy Income Fund provides exposure to what we see as a long-dated structural growth trend. The energy transition will continue. Of course, progress won't be in a straight line or always an easy path. But on a global view, there is broad government and corporate level support.

**Source: Gravis as at 31 July 2025*

***Source: FE Analytics, total returns in sterling, 31 December 2024 to 11 August 2025*

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