

Ecofin Global Utilities and Infrastructure Trust

Delivering the goods

The manager of Ecofin Global Utilities and Infrastructure Trust (EGL), which invests in utilities and other economic infrastructure equities, says that the company’s portfolio has benefitted from a tactically overweight position in continental European stocks, good stock selection and an upswing in power prices which have moved higher on the back of rising commodity prices.

Earlier this year the manager trimmed exposure to UK utilities, which have suffered as interest rate expectations and regulatory pressures have increased. The manager believes that we are in a new phase of consolidation activity within the utilities sector, which could contribute to future NAV and share price growth for the company. EGL looks set to deliver a total return of 6-12% per annum to shareholders over time.

Developed markets utilities and other economic infrastructure exposure

EGL seeks to provide a high, secure dividend yield and to realise long-term growth, while taking care to preserve shareholders’ capital. It invests principally in the equity of utility and infrastructure companies which are listed on recognised stock exchanges in Europe, North America and other developed, OECD countries. It targets a dividend yield of at least 4% per annum on its net assets, paid quarterly, and can use gearing and distributable reserves to achieve this. The portfolio is invested entirely in securities that pay a yield.

Year ended	Share price total return (%)	NAV total return (%)	MSCI World Utilities TR. (%)	MSCI World total return (%)	MSCI UK total return (%)
31/10/17	9.7	9.1	5.7	13.5	11.9

Source: Morningstar, Marten & Co

Sector	Sector specialist: utilities
Ticker	EGL LN
Base currency	GBP
Price	133.5p
NAV	149.61p
Premium/(discount)	(10.8%)
Yield*	4.8%

* Note: yield assumes that EGL is able to at least maintain the quarterly dividend rate at 1.6p.

Share price and discount

Time period 26/09/2016 to 07/11/2017



Source: Morningstar, Marten & Co

Performance since launch

Time period 26/09/2016 to 31/10/2017



Source: Morningstar, Marten & Co

Domicile	United Kingdom
Inception date	26 September 2016
Manager	Jean-Hugues de Lamaze
Market cap	122.6m
Shares outstanding	91.9m
Daily vol. (1-yr. avg.)	269,632 shares
Net cash	1.5%

[Click here for our initiation note](#)

Manager's view

Manager happy with EGL's progress. UK utilities overshadowed by possibility of regulatory pressure

Jean-Hugues de Lamaze (the manager or Jean-Hugues) says that he is happy with Ecofin Global Utilities and Infrastructure's (EGL's) progress and the shape of its portfolio. Generally, markets have been strong and EGL has been outperforming its universe. Strengthening power prices have had a positive impact and we have also seen more consolidation in the sector. Currency swings have been impacting on the NAV but, in general, sterling weakness is helpful. Mindful that interest rates look set to rise and regulatory pressure is mounting, Jean-Hugues has adopted a more cautious view on UK utilities.

Rising power prices

For some time, we have been in an era of low power prices. This has been a global phenomenon, in part due to demand which has been reflecting weak economic growth but also due to efficiency measures designed to reduce power consumption. The development of the renewable energy sector has also been much faster than was widely anticipated only a handful of years ago, adding to capacity. However, in recent months, power prices have been on a rising trend.

German power prices up by more than 75%

In Europe, one of the factors that has driven the increase in power prices has been a rising coal price. European coal prices are up 35% this year, partly on the back of a revival in demand from China. The effect has been dramatic; in Germany prices have risen from €21 MWh (at the lows reached in H1 2016) to €37 MWh and the manager says that there have been similar moves in France.

In the US, economic growth has led to increased demand and this is feeding through to higher power prices there.

Utilities seeing higher profitability and cash flow. Improved balance sheets and dividends may follow

Utilities adjusted to a world of lower power prices and now, as prices rise, the benefits are often flowing straight through to the bottom line. This, in turn, means that many companies in the sector are revealing positive earnings surprises, and higher cash flow suggests improving balance sheets and increased dividends. This is good news for a trust which places great emphasis on generating income. The manager points out that the identification of stocks that are capable of producing dividend growth is a critical factor in stock picking decisions.

Modest inflation

Accelerating inflation is also having an effect on the sector. Inflation has been picking up in the UK and also in Europe, where the ECB is encouraging it, and in the US where the economy has been fairly strong. Higher inflation could clearly drive interest rates higher too but the manager believes that those increases are likely to be modest and gradual. The manager says that a moderate amount of inflation is positive for EGL's investment universe, and only becomes an issue if it is very high and difficult to pass through to consumers; 4% or so would be positive for the universe's earnings base.

Lately, interest rate rises – and the fear of interest rate rises – have impacted on regulated utilities as momentum moves to other, more cyclical, areas of the market. Jean-Hugues had trimmed exposure to UK regulated names earlier in the year but the portfolio overall remains well exposed to this sub-sector, not least because large positions in regulated utilities elsewhere, such as Innogy, American Electric Power,

Algonquin Power and Italgas have performed very well and fundamentals remain strong.

M&A picking up

The manager believes that we are in a new phase of consolidation activity within the utilities sector. M&A potential is not a driver of stock selection decisions but the manager thinks that it may be a factor in future NAV and share price growth for the trust.

To give some examples, there has been some bid speculation among US yieldcos, and in Portugal EDP launched a buyback offer for renewables subsidiary EDPR, although the market considered the offer insufficient and the offer was only partially subscribed. Fortum, a Finnish utility, is bidding for Uniper, a company that was spun out of E.ON (E.ON retained a significant stake) and is focused mainly on hydro-electric and thermal generation. In the Philippines, Energy Development Corp (EDC, a geothermal power producer) was targeted by a consortium led by Macquarie and GIC. EGL was an investor in EDC and in September tendered its shares; it received cash for 85% of its holding and the manager says that the exit price was a substantial premium to EGL's entry price.

Utility companies are reshaping their businesses to reflect the need to curb CO₂ emissions

The push towards a lower carbon world is driving utility companies to reshape their portfolios of generating assets. It was one of the reasons why E.ON created Uniper (E.ON's rump generation business).

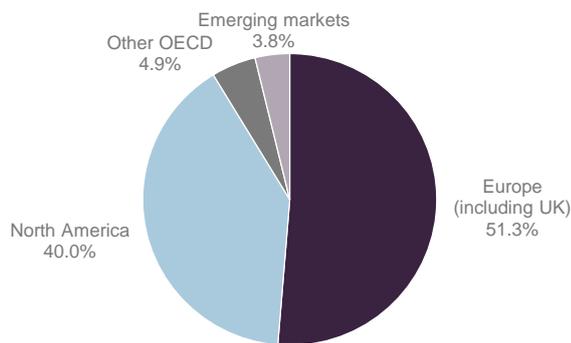
Asset allocation

Jean-Hugues emphasises that turnover in the portfolio should not usually be very high; reflecting his deep-dive analytical process, he takes his time to add new stocks to the portfolio. He does optimise positions continually however, taking profits and adding to positions on weakness. Since we published our initiation note, the UK is now a lower proportion of the portfolio as the manager has reduced exposure to stocks such as SSE and Severn Trent. The continental European portion of the portfolio has grown with new investments and capital appreciation.

Exposure to non-OECD countries (including emerging markets) peaked in the summer and has since been reduced by profit taking and the partial bid for EDC. Early in July, EGL invested in B. Grimm, a gas-fired power generating business in Thailand, at IPO (EGL can invest up to 10% of its portfolio in non-OECD countries – see page 12 of our May 2017 initiation note). Jean-Hugues believed that the stock, which is the largest supplier to Thailand's state-owned power distributor, was underpriced relative to listed peers. He has been proved right as the stock is up by more than 70% since IPO.

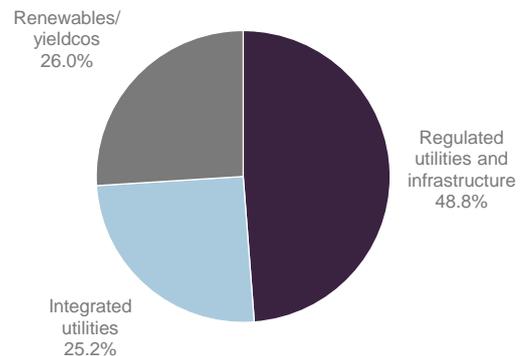
The manager says that gearing is being kept low at the moment so that EGL can take advantage of opportunities, should they arise.

Figure 1: Geographic allocation as at 31 October 2017



Source: Ecofin Global Utilities and Infrastructure Trust

Figure 2: Sub-sector allocation as at 31 October 2017



Source: Ecofin Global Utilities and Infrastructure Trust

Figure 3: Top 10 holdings as at 31 October 2017

Holding	Sector	Geography	Allocation 31/10/17 (%)	Allocation 31/03/17 (%)	Change (%)
Innogy	Renewable energy	Germany	5.8	4.7	+1.1
Covanta	Waste to energy	US	4.3	3.4	+0.9
NextEra Energy Partners	Renewable energy	US	4.2	2.7	+1.5
Engie	Energy	France	4.1	1.8	+2.3
E.ON	Renewables and networks	Germany	3.9	1.4	+2.5
American Electric Power	Electricity	US	3.8	2.8	+1.0
Williams Companies	Energy infrastructure	US	3.7	3.7	0.0
EDF	Electricity	France	3.7	-	+3.7
Algonquin Power and Utilities	Renewable energy	Canada	3.3	3.0	+0.3
Italgas	Gas distribution	Italy	3.1	2.7	+0.4
Total			39.9		

Source: Ecofin Global Utilities and Infrastructure Trust

EDF

The manager took the opportunity to take a significant position in EDF. He had previously been cautious on the stock but concluded that the bad news (unfavourable pricing context in France, issues at Areva, risk of nuclear closures and uncertainties on EPR developments including Hinkley Point) had been discounted in the share price and the market was being overly bearish on the stock. The manager thinks that, of all of the major utilities, EDF has the highest sensitivity to power prices and carbon prices (it benefits as these rise). The carbon price has risen from €5 per tonne of carbon dioxide to €7 but France is now proposing a floor in Europe of €30 per tonne. The manager says that its implementation largely depends on whether Germany agrees but he believes that, if the policy proceeds, EDF will be directly and positively affected. In contrast, RWE and Polish utilities would likely suffer if the policy is implemented but EGL does not hold these. Not surprisingly, Poland is opposed to the idea.

We asked about Hinkley Point as it is probably the first thing that comes to many UK investors' minds when considering EDF. Jean-Hugues points out that it is a huge project with its costs and benefits spread over many years and that, ultimately, he is

comfortable with the projected returns to EDF. The UK is clearly in need of the extra generation capacity and while there has been some political posturing, the UK has signed a contract with EDF and EDF would be heavily compensated should it decide to reverse its decision. He also observes that EDF has been working through problems with its trial reactors at Flamanville, France (also over budget and behind schedule); Olkiluoto-3, Finland (expected to open a decade late and three times over budget - €8.5bn versus €3.2bn); and China. He thinks that Hinkley Point is a very good development for EDF, which can be financed and that EDF has an excellent portfolio of assets, which could be used to support the project.

E.ON

The manager added to EGL's position in E.ON in July, which has proved to be a good decision with M&A activity providing a boost. E.ON's share price had suffered in the wake of the nuclear scrappage scheme in Germany (in 2011 Angela Merkel announced that Germany would be nuclear-free by 2021). This not only curtailed the lives of the affected facilities but also imposed huge decommissioning costs on operators, E.ON included. However, Germany's courts ultimately awarded in E.ON's favour and the German government has paid several billion euros in compensation, thereby lifting a burden on the company and other operators. Jean-Hugues says that, excluding its German nuclear assets that are in run-off, the company is now focused on renewable energy, infrastructure and customer services. He says that the infrastructure business provides solid cash flows, the renewables business provides growth and the customer facing division provides it with pricing power.

Performance

Figure 4: Cumulative total return performance to 31 October 2017

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	Since launch* (%)	Volatility (%)**
EGL NAV	3.5	4.3	11.3	9.1	10.9	0.68
EGL share price	0.4	3.2	9.3	9.7	21.4	1.39
MSCI World Utilities	3.9	2.7	6.7	5.7	9.0	0.76
MSCI World	3.0	3.7	7.0	13.5	19.2	0.66
MSCI UK	1.6	2.4	5.8	11.9	14.3	0.55

Source: Morningstar, Marten & Co. *Note: EGL was launched on 26 September 2016. **Note: Volatility is the standard deviation of daily returns over the year to 30 September 2017.

You can see up-to-date information on the QuotedData website.

As mentioned on page 3, asset allocation – in particular a fairly heavy weighting in continental Europe – and stock selection – especially in Europe, non-OECD and emerging markets – have been helpful to EGL's absolute and relative performance. EGL's relatively new position in EDF has benefitted from rising power and carbon prices (primarily because its portfolio of generation assets is biased towards nuclear) and Uniper has also performed well. Energy Development Corp, B Grimm and Mercury NZ (all in the 'rest of the world' portfolio) have contributed positively to the NAV progress this year. Conversely, the manager reports some disappointment with the trust's exposure to US mid-stream infrastructure companies, in particular Plains Group Holdings which missed its guidance and turned out to be more sensitive to commodity prices (as opposed to volumes) than had been expected.

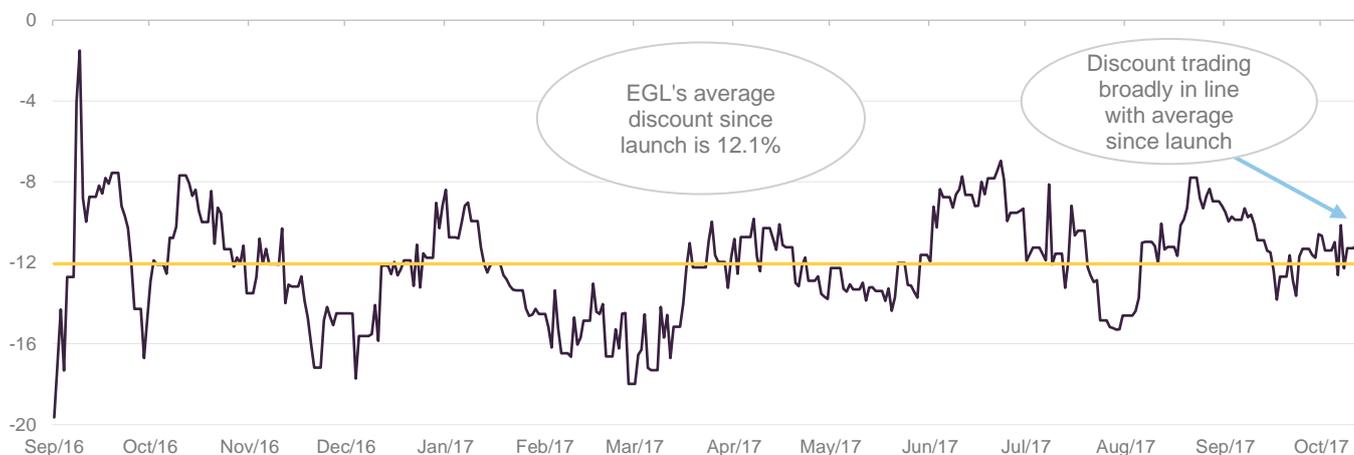
Figure 5: EGL NAV/MSCI World Utilities Index – rebased to 100 since launch



Source: Morningstar, Marten & Co.

Discount / premium

Figure 6: Premium/(discount) since launch



Source: Morningstar, Marten & Co.

Year-to-date, EGL has traded at discounts in a range of between 7% and 18%, while its average discount has been 12.1% (it has averaged 12.3% since launch). The discount as at 7 November 2017 was 10.8%, which is wider than the board would like or expect it to be. The board says that it will consider using share repurchases to assist in limiting any sustained discount and discount volatility but there is no formal discount control mechanism, or discount target, and, to date, the trust has not repurchased any of its shares. We said in our initiation note that we think that this is reasonable. We believe that, given EGL's present size, share repurchases would likely have a limited impact on the discount as they would also serve to reduce liquidity and put upward pressure on EGL's ongoing charges ratio. We therefore consider that EGL would be better served by increasing its size and are encouraged that the managers have been allocating more resources to increasing awareness of the trust among investors. As discussed below, EGL's strategy has room to grow.

Fund profile

Developed markets utilities and infrastructure exposure with an income and capital preservation focus

Further information regarding EGL can be found on Ecofin Limited's website: www.ecofin.co.uk

EGL has a strong focus on capital preservation.

Ecofin Global Utilities and Infrastructure Trust Plc is a UK investment trust, listed on the main market of the London Stock Exchange (LSE). The trust invests globally in the equity and equity-related securities of companies operating in the utility and other economic infrastructure sectors. EGL is designed for investors who are looking for a high level of income, would like to see that income grow, wish to preserve their capital and have the prospect of some capital growth as well.

Reflecting its capital preservation objective, EGL does not invest in start-ups, small businesses or illiquid securities, as these may involve significant technological or business risk. Instead, it invests primarily in businesses in developed markets, which have 'defensive growth' characteristics: a beta less than the market average; dividend yield greater than the market average; forward looking EPS growth; and strong cash flow generation.

It also operates with a strict definition of utilities and infrastructure as follows:

- Electric and gas utilities and renewable operators and developers – companies engaged in the generation, transmission and distribution of electricity, gas, liquid fuels and renewable energy
- Transportation – companies that own and/or operate roads, railways, ports and airports
- Water and environment – companies operating in the water supply, wastewater, water treatment and environmental services industries.

EGL does not invest in telecommunications companies or companies that own or operate social infrastructure assets funded by the public sector (for example schools, hospitals or prisons).

No formal benchmark

EGL does not have a formal benchmark and is not constructed with reference to any index.

EGL does not have a formal benchmark and its portfolio is not constructed with reference to an index. However, for the purposes of comparison, EGL compares itself to the MSCI World Utilities Index, the MSCI World Index and the All-Share Index in its own literature. We are using a similar approach here, but are using the MSCI UK Index to represent the UK market. Of the three indices, we consider the MSCI World Utilities to be the most relevant although it should be noted that this index has a strong bias towards US companies.

Strategy has room to grow

Expanding EGL's size should lower its ongoing charges ratio and improve liquidity in its shares.

EGL had a market capitalisation of £122.6m as at 7 November 2017). The manager believes, and we agree, that its strategy could easily be applied to a much larger fund and its defensive growth characteristics should prove attractive to investors. Expanding the size of the trust should have the dual benefits of lowering the ongoing charges ratio and improving liquidity in EGL's shares.

Previous research publications

We published an initiation note on EGL – [*Structural growth, low volatility and high income*](#) – on 23 May 2017. This explains, in some detail the workings of the trust, the background of the manager, the investment philosophy and approach that drives stock selection, fees, capital structure and the board. Its contents pages are included below.

Structural growth, low volatility and high income – 23 May 2017

4	Fund profile
4	Developed markets utilities and infrastructure exposure with an income and capital preservation focus
4	Ecofin Limited
5	Experienced lead manager: Jean-Hugues de Lamaze
5	Strategy has room to grow
5	UK listed utilities sector has shrunk during the past decade
6	Established as a rollover vehicle for Ecofin Water and Power Opportunities
6	No formal benchmark
6	Market outlook and valuations
6	Recent history and valuations
7	Global utilities and interest rate sensitivity
8	Manager's view
8	High demand for infrastructure spending globally
9	Investment process
9	Well-resourced team
10	Idea generation
10	Analysis
10	Catalysts are key to investment decisions
11	Portfolio construction
11	Top-down overlay
11	Risk management
11	Investment restrictions
12	Focus on stocks with above-average dividend growth
12	Asset allocation
13	Suez (4.9%)
14	Innogy (4.7%)
14	SSE (4.3%)
14	Williams Companies (3.7%)
15	Covanta (3.4%)
15	Performance
17	Quarterly dividend payments targeting at least 4% of NAV per annum
17	Discount/premium

Contents (continued)

18	Fees and expenses
18	Management fee
19	Secretarial and administrative services
19	Depositary and prime brokerage agreement
19	Allocation of fees and costs
19	Capital structure and trust life
19	Simple capital structure
19	Diversified share register
20	Competitive borrowing facility provided by prime brokerage facility with custodian
20	Unlimited life with a continuation vote by the end of June 2019
20	Financial calendar
21	The board
21	David Simpson
21	Ian Barby
21	Iain McLaren
22	Martin Nègre

Authorised and regulated by the Financial Conduct Authority

123a Kings Road, London SW3 4PL

0203 691 9430

www.martenandco.com

Registered in England & Wales number 07981621,

2nd Floor Heathmans House

19 Heathmans Road, London SW6 4TJ

Investment company sales:

Edward Marten
(em@martenandco.com)

Investment company research:

James Carthew
(jc@martenandco.com)

Matthew Read
(mr@martenandco.com)

IMPORTANT INFORMATION

This marketing communication has been prepared for Ecofin Global Utilities and Infrastructure Trust by Marten & Co (which is authorised and regulated by the Financial Conduct Authority) and is non-independent research as defined under the Financial Services Act 2000 (Financial Promotion) Order 2005. It is intended for use by investment professionals as defined in article 19 (5) of that Order. Marten & Co is not authorised to give advice to retail clients and, if you are not a professional investor, or in any other way are prohibited or restricted from receiving this

information you should disregard it. The research does not have regard to the specific investment objectives, financial situation and needs of any specific person who may receive it.

The research has not been prepared in accordance with legal requirements designed to promote the independence of investment research and as such is considered to be a marketing communication. The analysts who prepared this research are not constrained from dealing ahead of it but, in practice and in

accordance with our internal code of good conduct, will refrain from doing so. Nevertheless, they may have an interest in any of the securities mentioned in this research.

This note has been compiled from publicly available information. This note is not directed at any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the publication or availability of this note is prohibited.

Accuracy of Content: Whilst Marten & Co uses reasonable efforts to obtain information from sources which we believe to be reliable and to ensure that the information in this note is up to date and accurate, we make no representation or warranty that the information contained in this note is accurate, reliable or complete. The information contained in this note is provided by Marten & Co for personal use and information purposes generally. You are solely liable for any use you may make of this information. The information is inherently subject to change without notice and may become outdated. You, therefore, should verify any information obtained from this note before you use it.

Investment Performance Information: Please remember that past performance is not necessarily a guide to the future and that the value of shares and the income from them can go down as well as up. Exchange rates may also cause the value of underlying overseas investments to go down as well as up. Marten & Co may write on companies that use gearing in a number of forms that can increase volatility and, in some cases, to a complete loss of an investment.

No Advice: Nothing contained in this note constitutes or should be construed to constitute investment, legal, tax or other advice.

No Representation or Warranty: No representation, warranty or guarantee of any kind, express or implied is given by Marten & Co in respect of any information contained on this note.

Exclusion of Liability: To the fullest extent allowed by law, Marten & Co shall not be liable for any direct or indirect losses, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note. In no circumstance shall Marten & Co and its employees have any liability for consequential or special damages.

Governing Law and Jurisdiction: These terms and conditions and all matters connected with them, are governed by the laws of England and Wales and shall be subject to the exclusive jurisdiction of the English courts. If you access this note from outside the UK, you are responsible for ensuring compliance with any local laws relating to access.

No information contained in this note shall form the basis of, or be relied upon in connection with, any offer or commitment whatsoever in any jurisdiction.
