MARTEN & CO

Update | Investment companies

29 March 2018

Ecofin Global Utilities and Infrastructure Trust

On the contrary….

Ecofin Global Utilities and Infrastructure (EGL) had a very strong 2017, beating the MSCI World Utilities Index by a significant margin. Utilities and infrastructure have got off to a difficult start in 2018 however, suffering from negative sentiment as markets have focused on the heightened prospect of interest rate rises as well as a couple of other high-profile difficulties within the sector. EGL's manager, Jean-Hugues de Lamaze, says that, while defensives are out of favour and sentiment has changed, the outlook for earnings, cash flow and dividend growth has not, and in fact remains very strong. With valuations depressed, he sees this as a classic contrarian opportunity and has increased gearing significantly by purchasing stocks he likes while they are cheap. This strategy served EGL well in the aftermath of President Trump's election. Jean-Hugues expects that it will drive outperformance once again.

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 (%)
28/02/18	3.1	0.6	(7.5)	6.6	3.2

Source: Morningstar, Marten & Co

Sector	Sector specialist: utilities
Ticker	EGL LN
Base currency	GBP
Price	112.25p
NAV	129.18p
Premium/(discount)	(13.1%)
Yield	5.7%

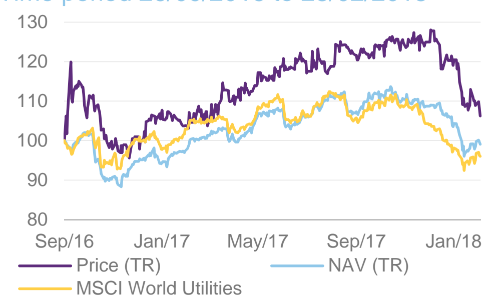
Share price and discount

Time period 26/09/2016 to 27/03/2018

Source: Morningstar, Marten & Co

Performance since launch

Time period 26/09/2016 to 28/02/2018



Source: Morningstar, Marten & Co

Domicile	United Kingdom
Inception date	26 September 2016
Manager	Jean-Hugues de Lamaze
Market cap.	103.1m
Shares outstanding	91.8m
Daily vol. (1-yr. avg.)	228.7k shares
Net gearing	17.5%

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Click here for our most recent update note

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Manager's view – take advantage of attractive valuations

2017 was a good year for EGL but recent months have seen the sector underperform.

2017 was a good year for EGL. It delivered NAV and share price total returns of 14.5% and 27.7%, respectively, significantly outperforming the MSCI World Utilities Index which returned 3.8%. However, since we last published in November 2017, the tide has turned against the utilities sectors (during the three months to 28 February 2018 the MSCI World Index rose by 0.6% while the MSCI World Utilities Index fell by 11.7% – all in sterling adjusted total return terms). This underperformance by the sector is significant and has been driven by a number of factors:

- Increased concern about rising interest rates
- US tax reform and government spending plans (which the manager believes tend to favour shorter duration business models) which spurred a sector rotation away from defensives to growth and cyclical stocks
- The well-publicised collapse of Carillion in the UK
- A shifting political environment in the UK

The portfolio also suffered from:

- A profits warning by Innogy (see page 7 for more discussion) and
- A bid for 8point3 Energy Partners (**www.8point3energypartners.com**) that, in the manager's view, was below market expectations yet still accepted by the company's board.

Share prices have suffered, but the outlook for earnings growth has generally strengthened, in the manager's view, making the sector more attractive.

While share prices have suffered, the outlook for earnings growth has, in the manager's view, generally strengthened, making the sector more attractive. He thinks, and we agree, that when coupled with its recent sharp de-rating, the sector represents a classic contrarian buying opportunity. Over the last six months, the portfolio has been shifted away from regulated utilities towards more growth orientated stocks and gearing has been expanded to take advantage of lower prices.

It is also noteworthy that, while the MSCI World Utilities Index fell 11.7% during the three months to 28 February 2018, EGL's NAV mildly outperformed this (a fall of 10.5%), yet a widening discount saw the share price fall by 15.5%. We think that this wider discount provides an additional layer of opportunity for investors prepared to make this 'contrarian leap'.

Interest rates

Rising interest rates are generally considered to be negative for equity markets and particularly for utilities which tend to have relatively high levels of debt compared to other equity sectors (utilities have to finance expensive long-life assets but can usually do this as they tend to benefit from stable and predictable cash flows). This is a subject we looked at in some detail in our initiation note in May 2017 (see pages 7 and 8 of that note). In summary, while there is ample evidence to suggest there is correlation between interest rate moves and sentiment towards the utilities sector and other interest rate sensitive sectors, the impact of higher long-term interest rates on the utilities sector is more nuanced.

Utilities are largely regulated businesses whose pricing is periodically reset through tariff reviews. Most regulators will allow interest rate movements to be passed through

to the end user, thereby offsetting the longer-term impact of interest rate rises and allowing utilities to earn a real return reflective of market conditions. Similarly, in the more inflationary environments that usually accompany rising interest rates, utilities are frequently permitted to increase their tariffs in nominal terms. Both effects will tend to have a positive impact on earnings and exert upward pressure on valuations. Other sectors may not benefit from such automatic adjustments. EGL's manager says that pure regulated utilities, which characterise the UK market, have some correlation to interest rates but globally, and especially in continental Europe, utilities tend to be diversified with a variety of business models and degrees of regulation. However, the market's perception is that utilities are a major bond proxy.

Interest rates and long bond yields have been on a broadly rising trend since EGL's launch in 2016. President Trump's tax reform measures led to an acceleration in long bond yields from mid-December 2017.

The manager highlights that interest rates and long bond yields have been on a broadly rising trend since EGL's launch in 2016. However, by mid-December 2017, President Trump's tax reform measures had inspired an acceleration higher in long bond yields on both sides of the Atlantic (although the rises were less evident in Southern Europe). Jean-Hugues says that expected stimulus from US tax reform coincided with evidence of stronger GDP growth around the world, triggering fears of higher inflation and more rapidly rising rates than previously expected. This was not a fashionable environment for defensive sectors – especially utilities which can be perceived as bond proxies – which underperformed markedly between December 2017 and February 2018. Jean-Hugues says that higher interest rates are not a surprise – this has been the trend for the last 2 years or so – and the question is whether the bulk of the adjustment in rates has occurred now? Jean-Hugues is of the view that most analysts' 2018 year-end targets for 10-year yields were in fact reached by mid-February. Shorter-term rates have also been pushed higher, and so rate curves have not steepened, which is beneficial for the performance of utilities relatives to other cyclical sectors.

Carillion and UK politics have added to negative sentiment

The manager considers that the UK currently has the worst political backdrop for utilities and infrastructure within developed economies.

In Jean-Hugues' opinion, the UK currently has the worst political backdrop for utilities and infrastructure within developed economies. The market is worried about the threat of nationalisation under a Corbyn government and the need to be seen to be addressing this issue has brought considerable pressure on the current government and the regulators. Jean-Hugues says that there is a general concern that any return earned in the UK will not be sustainable. This comes alongside the high-profile failure of Carillion as well as issues at Drax that illustrate that risk has been transferred to the private sector; yet returns are elusive. This has had a negative impact across the sector. Jean-Hugues points out that EGL's share price has suffered in the wake of Carillion even though the trust is not exposed to UK PFI or social infrastructure. Furthermore, he believes that, while politics always plays a part in utilities and infrastructure, regulatory risk has generally receded elsewhere, for example in Germany, France, Spain and Italy.

Improving fundamentals

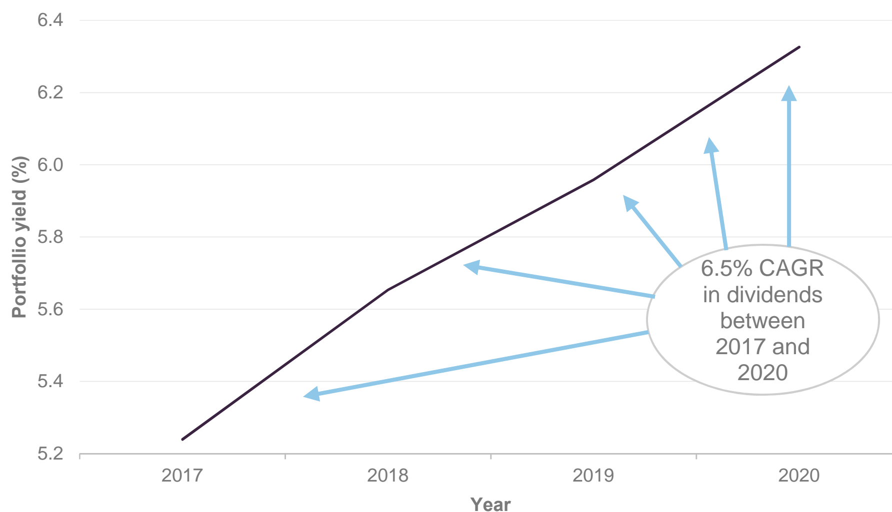
The manager says that, while share prices in the sector have suffered, earnings bases have been improving and companies have been increasing dividends.

While share prices in the sector have been hit hard over the last 3 months, Jean-Hugues says that earnings bases have been improving and companies have been increasing dividends. Jean-Hugues believes that after a six-year period of declining earnings, the European utilities sector is now at an inflection point. Data from Goldman Sachs suggests that net income for this sector is expected to grow at a compound 8% per annum, and by 25% cumulatively through to 2020, while cumulative EPS growth for the market as a whole is expected to be 18%. Secular growth in networks and renewables is expected to drive this growth. In the US, earnings growth in the sector will not, on average, beat the market's (fuelled by tax reform) but it will be robust nonetheless. P/E valuations for US and European utilities, both in absolute terms and relative to the market, are extremely low by historic standards.

The portfolio yield is currently 5.2% and dividends from companies in the portfolio are expected to grow at a compound rate of 6.5% per annum through to 2020.

Ecofin has analysed the dividend growth profile of EGL's portfolio (forecasts have been prepared on a stock by stock basis) and the results are illustrated in Figure 1 below (which assumes no growth in net assets). The portfolio yield is currently 5.2% and dividends from companies in the portfolio are expected to grow at a compound rate of 6.5% per annum through to 2020. Jean-Hugues believes that underlying earnings are growing in strength (which runs counter to recent share price performance). This picture helps Jean-Hugues to feel confident about reaching the trust's long-term total return target of 6-12% per annum.

Figure 1: EGL portfolio dividend yield profile over the next three years*



Source: Ecofin Limited * Note: assumes no growth in net assets.

Asset allocation

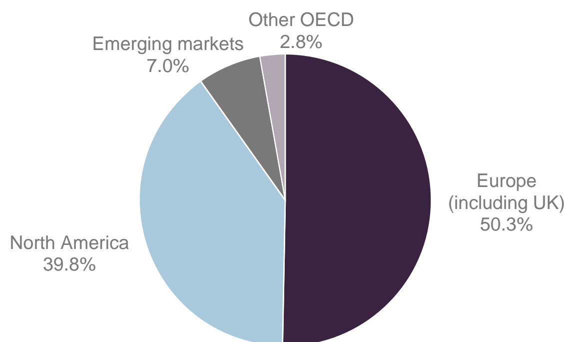
Portfolio activity

Jean-Hugues has further reduced the weighting in regulated companies, refocusing the portfolio on growth stocks.

Since we last published on EGL in November 2017, Jean-Hugues has further reduced the weighting in regulated companies, refocusing the portfolio on growth stocks and taking advantage of the collapse in the sector to add to companies with strong fundamentals at attractive prices. This has led to a significant rebalancing of the portfolio although the total number of positions has remained static at 45. Gearing has also increased through a combination of share price falls within the portfolio and net purchases to take advantage of the current pricing environment. The portfolio has moved from being 1.5% net cash at 31 October 2017 to having net borrowings of around 10% at the end of 2017 and 17.5% as at 28 February.

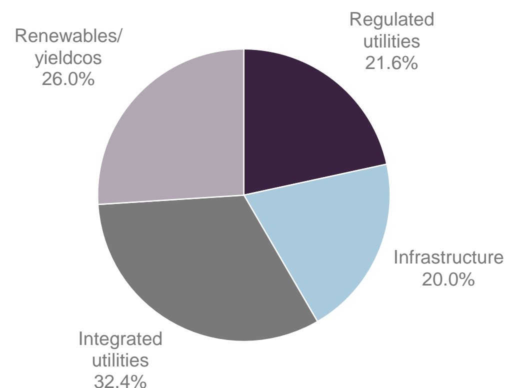
Portfolio concentration in the top 10 holdings has not changed materially since 31 October 2017 (from 39.9% as at 31 October to 37.0% as at 28 February), and neither have geographical weights: approximately 40% of the portfolio is invested in North America and 50% in Europe (including the UK). The balance is invested in other OECD markets (3%; Australia) and emerging markets (7%; Hong Kong, Thailand, Philippines). At a sector level, the prominent change is the reduction in exposure to pure regulated names in favour of growth-oriented integrated utilities and infrastructure names.

Figure 2: Geographic allocation as at 28 February 2018



Source: Ecofin Global Utilities and Infrastructure Trust

Figure 3: Sub-sector allocation as at 28 February 2018



Source: Ecofin Global Utilities and Infrastructure Trust

Figure 4 shows EGL's top 10 holdings as at 28 February 2018 and how these have changed since we last published. New entrants to the top 10 comprise Flughafen Zuerich, Vinci, Exelon, Enel, Fortum Oyj and Iberdrola. Names that have moved out of the top 10 are Innogy, Covanta, Engie, Williams Companies, Algonquin Power and Utilities and Italgas. We discuss some of the more interesting changes below.

Figure 4: Top 10 holdings as at 28 February 2018

Holding	Sector	Geography	Allocation 28 Feb 18 (%)	Allocation 31 Oct 17 (%)	Change (%)
NextEra Energy	Renewable energy	US	5.2	2.9	+2.3
E.ON	Renewables and networks	Germany	4.3	3.9	+0.4
EDF	Electricity	France	4.1	3.7	+0.4
Flughafen Zürich	Airport	Switzerland	3.5	1.9	+1.6
Vinci	Transport infrastructure	France	3.4	2.8	+0.6
American Electric Power	Electricity	US	3.4	3.8	(0.4)
Exelon	Electricity	US	3.4	0.0	+3.4
Enel	Electricity and gas	Italy	3.3	2.4	+0.9
Fortum Oyj	Clean energy	Finland	3.2	0.0	+3.2
Iberdrola	Electricity	Spain	3.2	1.5	+1.7
Total of top 10			37.0	39.9	(2.9)

Source: Ecofin Global Utilities and Infrastructure Trust

NextEra Energy – high quality assets

Figure 5: NextEra Energy share price

Source: Bloomberg

NextEra Energy (NEE - **www.nexteraenergy.com**) describes itself as a leading clean energy company with consolidated revenues of approximately $17.5 billion, approximately 46,400 megawatts of generating capacity and approximately 14,300 employees in 27 US states and Canada.

NextEra, a long-standing holding in the portfolio, is the largest wind operator in the US. It was EGL's largest holding as at 28 February 2018, having moved up from being the ninth largest as at 31 December 2017. The company has refocussed its business around renewables under the direction of, Ecofin believes, a deeply impressive management team. Jean-Hugues expects double-digit earnings growth over the next 3 years and used a recent set-back in the share price to increase the position. NEE's yieldco, NextEra Energy Partners (NEP - **www.nexteraenergypartners.com**), is also a significant holding in the portfolio although it has slipped out of the top ten; Jean-Hugues believes that NEP's assets are of the highest quality and its prospects for growth are strong. NEP yields around 5%.

Flughafen Zürich (Zurich Airport) – scarce asset class

Figure 6: Flughafen Zürich share price

Source: Bloomberg

Flughafen Zürich (**www.zurich-airport.com**) is the largest international airport in Switzerland. Also known as Kloten Airport, it is located eight miles north of central Zurich and is the main hub of Swiss International Air Lines. Privatised in 2000, the company has been listed on the Six Swiss Exchange since November of that year (ticker: FHZN). There are very few listed airports globally and Jean Hugues says that most of the shares are closely held so there is a scarcity effect (most of what is available is in Europe and Asia) and they typically trade at EV/EBITDA multiples in the range of 6.5x to 12.5x.

According to Jean-Hugues, Flughafen Zürich has tended to trade in the middle of this range but, in his view, has a strong outlook. It has one of the least developed retail businesses (compared to say Heathrow, which has one of the most developed). This leaves considerable scope to improve profitability. Flughafen Zürich also benefits from a good regulatory environment and traffic growth of 5-6% per annum (markedly ahead of global GDP growth).

Enel – improving regulatory environment supports growth

Figure 7: Enel share price

Source: Bloomberg

Enel (**www.enel.com**) is an Italian multinational producer and distributor of electricity and gas. Originally a state-owned body, it was privatised in 1999 although the Italian government continues to own around 25% of the company's shares. Jean-Hugues says that the regulatory environment has improved in Italy, reflecting the chronic need for investment, and he thinks that Enel has strong growth prospects, yet the company is lowly valued. Jean-Hugues was able to add to the position through purchases at around 5x EBITDA.

Fortum Oyj – a new stock enters the portfolio

Figure 8: Fortum Oyj share price

Source: Bloomberg

Fortum Oyj (Fortum - **www3.fortum.com**) is a new entrant to EGL's portfolio and a top 10 position. It is a Finnish heat and power company focusing on providing clean energy in the Nordic and Baltic countries, Poland, Russia and India. It also provides a range of waste services.

As at 31 December 2017, Fortum's generation portfolio included hydroelectricity (4,672MW), nuclear (2,814MW), combined heat and power (774MW), other thermal (376MW) and wind (107MW). Fortum has core operations in 10 countries and supplies heat in some 22 cities and towns. It also has five main waste treatment facilities.

Jean-Hugues says that Fortum has a portfolio of very clean low-carbon generating assets. He thinks that Fortum's management has been very good at designing and executing the company's strategy and that Fortum's decision to bid for E.ON's stake in Uniper is a very smart move. He considers that the businesses are well aligned and that they have a complementary asset mix. He expects to see double digit earnings growth this year. This follows a strong 2017 during which Fortum's comparable EBITDA grew by 26% to €1,275m. Jean-Hugues says that Fortum is not a cheap stock but it has excellent growth prospects that justify the higher valuation.

Williams Companies - reduced through profit taking

Figure 9: Williams Companies share price

Source: Bloomberg

Williams Companies (**co.williams.com**) is a pure-play pipeline infrastructure company, which we discussed on page 14 of our May 2017 initiation note. It is engaged in the gathering, treatment and processing of natural gas, principally in Texas, Oklahoma and the Rocky Mountain region of the United States, and in interstate gas transportation. Williams' share price performed well until February 2018 when it surrendered much of the gains made during December and January. Fortunately, Jean-Hugues had already taken profits and reduced the holding in advance of this occurring. He continues to like the company, which he considers to be well managed with good growth prospects.

Innogy - suffered on the back of the December profits warning, but was subsequently bid for by E.ON

Figure 10: Innogy share price

Source: Bloomberg

Innogy (**www.innogy.com**) is a German energy company that owns the renewables, retail, grid and infrastructure businesses of its parent, RWE. We discussed Innogy on page 14 of our May 2017 initiation note. It is a company and business model (renewables together with regulated activities) that Jean-Hugues likes and it was EGL's largest holding as at 30 November 2017 accounting for 5.1% of the portfolio.

Innogy, whose UK household supply business, Npower, had been experiencing tight trading conditions, announced last November that it had agreed terms with SSE to combine their respective UK retail businesses into a separate listed entity. This was considered to be good news. On 13 December 2017, however, Innogy issued a profits warning citing margin pressures in Germany. These problems appeared to have surprised Innogy's board and triggered the departure of the CEO. Jean-Hugues says that the profit warning was a disappointment, having been announced just one month after the third quarter results. While the difficulties in Innogy's UK business were understood, management had failed to keep the market informed about margin pressures in Germany. EGL reduced exposure but continued to hold a smaller position in Innogy (circa 3%) as Jean-Hugues continued to believe that the mix of assets is interesting, the shares are attractively valued and the company would make an attractive acquisition target.

Subsequent to our meeting with Jean-Hugues, E.ON announced the acquisition of the controlling stake in Innogy from RWE.

Figure 11: E.ON share price

Source: Bloomberg

E.ON is one of the portfolio's top 5 positions, having recently been increased as the stock looked attractive following a period of underperformance attributed by Jean-Hugues to rising German bond yields and a lack of strategic clarity. He expects that this deal will generate synergies and that the market should appreciate E.ON's focus on networks which typically trade on higher multiples than other utility segments. Upon announcement of the deal, which provided minority shareholders with a 16% premium to the last-traded share price and a 25%+ premium to February lows, the position in Innogy was sold so as to use the funds for other opportunities in the space.

Jean-Hugues believes that the transaction could trigger a phase of M&A activity across Europe. Engie, Enel and Iberdrola were all reported to have expressed interest in Innogy, and they may look for alternatives. European utilities are gradually transforming themselves from diversified conglomerates into more focused groups, and renewables and infrastructure appear to be the two critical areas of focus. The E.ON/RWE/Innogy deal will most likely accelerate the trend and Jean-Hugues expects more cross-border transactions at some point.

Performance

2017 – well ahead of target

2017 saw EGL provide NAV and share price total returns of 14.5% and 27.7%, respectively. These were both markedly ahead of the MSCI World Utilities Index, which returned 3.8%. They also exceeded the performance of the MSCI World Index (12.3%) and EGL's long-term total return target of 6-12% per annum. As illustrated in Figure 12 below, EGL's portfolio generated positive alpha for its Continental Europe, UK and North American portfolios. The manager says that a major driver of EGL's outperformance is that Jean-Hugues geared up EGL's portfolio and at the end of 2016 when the market was cheap following President Trump's election. It then benefitted as the market recovered. The non-OECD and emerging market exposures, although small, performed extremely well.

Figure 12: Performance by region, total return in local currencies, one-year to 31 December 2017

Holding	EGL portfolio (%)	Index (%)	Alpha contribution	Beta contribution
Continental Europe	22.4	20.8	3.8	18.6
UK	(0.8)	(10.5)	7.7	(8.5)
North America	18.5	12.1	12.1	6.4
Rest of the world	33.8			

Source: Ecofin Global Utilities and Infrastructure Trust

Figures 13 and 14 show the largest positive and negative contributors to NAV during 2017. NextEra Energy Partners is, in Jean-Hugues' view, possibly the best quality yieldco in the US (we discuss this and its parent, NextEra, on page 5). Uniper benefitted from a bid by Fortum Oyj (also a portfolio company – discussed on page 6). Despite Uniper rejecting the offer, saying that Fortum had undervalued the company, Fortum secured a 46.65% stake from E.ON (at €22 per share) and now has around 47% of the company (it gained an additional 0.47% in a second round that closed on 2 February 2018). Fortum says that it is not going to increase its offer. It can now buy additional shares on the open market and disclose at certain thresholds but if it purchases additional shares, off market, within 12 months of the offer at a higher price, it will have to pay the difference to shareholders that have already tendered.

Italgas performed well as power prices increased in Europe generally and regulatory risk receded in Italy. Jean-Hugues says that Italian utilities are in chronic need of investment and he expects the private sector to be encouraged to participate.

Thailand's B Grimm Power listed on the Bangkok SET on 19 July 2017. It is the largest business unit within its parent and was listed primarily to fund overseas expansion and to pay down debt. It has performed very strongly since its IPO.

Engie (formerly GDF Suez) suffered in early 2017 after it warned that it had booked €3.8bn of impairments in 2016 (mainly due to low power prices). It recovered strongly during the remainder of the year as power prices strengthened.

EGL's manager also says that that Enel, Fortum, E.ON, Flughafen Zürich, NextEra and Covanta also performed well during 2017.

Figure 13: Top five positive contributors to NAV, one-year to 31 December 2017

Region	Average exposure of NAV (%)	Share price (%)	Contribution to NAV (%)
NextEra Energy Partners	3.7	+75.9	1.79
Uniper	2.0	+104.6	1.53
Italgas	3.1	+42.10	1.22
B Grimm Power	1.7	+79.7	1.10
Engie	3.7	+25.6	0.88

Source: Ecofin Global Utilities and Infrastructure Trust

Figure 14: Top five negative contributors to NAV, one-year to 31 December 2017

Region	Average exposure of NAV (%)	Share price (%)	Contribution to NAV (%)
Plains GP Holdings	1.5	(32.1)	(0.65)
SSE	4.2	(9.5)	(0.37)
National Grid	2.7	(4.2)	(0.27)
Kinder Morgan	1.3	(10.6)	(0.15)
TerraForm Power	2.2	7.3	(0.14)

Source: Ecofin Global Utilities and Infrastructure Trust

Plains GP Holdings is a holding company for NYSE listed Plains All American Pipeline, a master limited partnership which operates oil and gas pipelines in the US and Canada. The company had a difficult 2016 driven by oil price weakness. It was expected to recover in 2017, but the company and the pipeline sector continued to struggle. It failed to meet its earnings projections and cut its dividend and the position has now been sold in its entirety. Kinder Morgan, which describes itself as the largest energy infrastructure company in the US (it has some 85,000 miles of pipelines and 152 terminals) also struggled for similar reasons.

Jean-Hugues says that UK utilities all underperformed their global peers, by a wide margin in 2017, and SSE and National Grid were no exception. This was driven by a toughening political environment and a difficult UK retail sector.

TerraForm Power (TerraForm) is a yieldco that develops and operates renewable energy projects (solar and wind generation assets) for its parent company, SunEdison. SunEdison got into well reported financial difficulties during 2015 and TerraForm, despite having ring-fenced assets, suffered heavily. Jean-Hugues felt that the market had over-reacted making TerraForm an attractive investment for EGL. TerraForm made progress during 2016, but 2017 saw it provide a small negative contribution to EGL's performance.

A difficult start to 2018 for the sector

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

December 2017 was a more difficult month for EGL's sectors and this deterioration worsened in the first two months of this year. This is reflected in Figures 15 and 16 overleaf. Concerns over rising interest rates were a factor but the manager also highlights both an "underwhelming" bid for 8point3 Energy Partners (a yieldco joint venture between First Solar and SunPower focused on solar energy generation projects) and the profit warning at Innogy as being hugely negative for the sector. The bid for 8point3 Energy Partners was at a 10% discount to its last traded share price, and, in Jean-Hugues' opinion, a vastly inferior price than was expected by the market.

The total exposure to yieldcos in the portfolio remains the same as before the 8point3 Energy and NRG Yield 'take-unders' (which both happened in February 2018). He considers that these two transactions, rather than questioning the yieldco business model, highlight the importance for yieldcos to have a strong parent company. He feels

that the two respective bidders, GIP and Capital Dynamics, will be in a better position than the previous owners to transfer high quality assets to their yieldco subsidiaries given the significant growth pipeline that both groups have. Jean-Hugues has reshuffled EGL's exposure so as to focus on yieldcos, such as NextEra Energy Partners, with strong sponsorships and has exited two names in Canada (Brookfield Renewables Partners and Transalta Renewables). Jean-hugues also added a new position in NRG Yield on share price weakness.

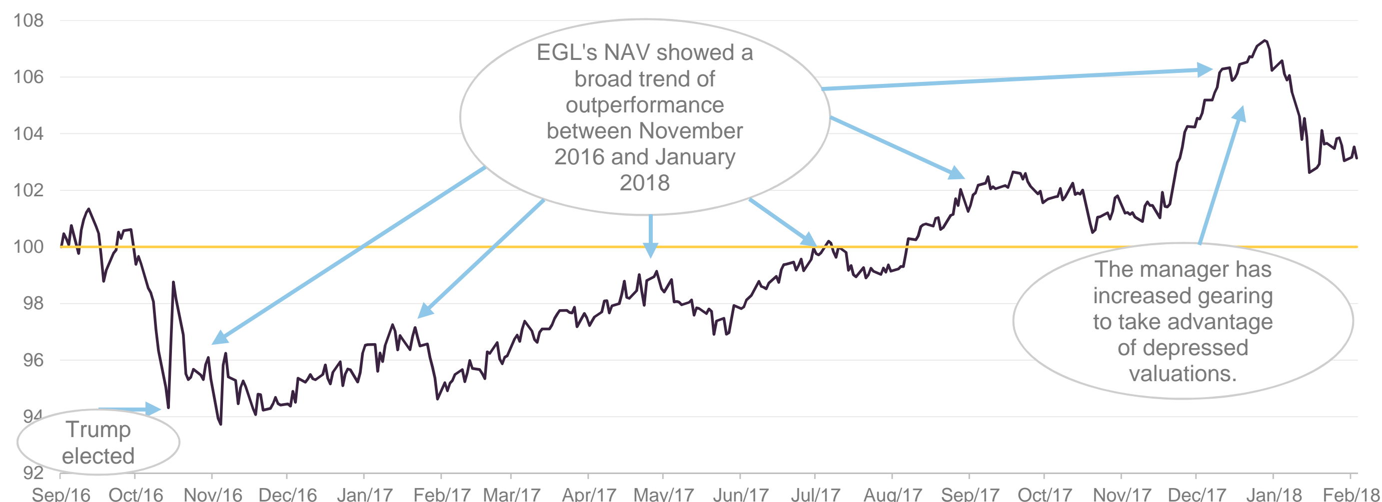
The Innogy situation is discussed on page 7. Jean-Hugues' response to has been to move gearing up significantly (from 1.5% net cash at 31 October 2017 to around 10% as at the end of December 2017 and 17.5% net borrowings as at 28 February 2018) and purchase stocks at what he thinks are clearly depressed valuations. As previously discussed, this strategy worked well for EGL in the aftermath of Donald Trump's election.

Figure 15: Cumulative total return performance to 28 February 2018

	1 month (%)	3 months (%)	6 months (%)	9 months (%)	1 year (%)	Since launch* (%)	Volatility (%)**
EGL NAV	(4.1)	(10.0)	(11.3)	(7.0)	0.6	10.9	0.68
EGL share price	(11.1)	(15.5)	(14.6)	(7.8)	3.1	21.4	1.37
MSCI World Utilities	(1.5)	(11.7)	(14.2)	(11.5)	(7.5)	9.0	0.68
MSCI World	(1.0)	0.6	2.0	5.3	6.6	19.2	0.68
MSCI UK	(3.4)	(0.5)	(1.4)	(1.4)	3.2	14.3	0.60

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 28 February 2018.

Figure 16: EGL NAV/MSCI World Utilities Index – rebased to 100 since launch



Source: Morningstar, Marten & Co.

Discount / premium

The manager says that it has been disappointing to watch EGL's discount, which started the year at 6.5%, widen to 14.5% in February (it has averaged 10.5% YTD, which compares with 11.7% in 2017 and 11.5% since launch). The trend during the second half of 2017 was one of discount tightening, as illustrated by the three-month

moving average line in Figure 17, although it has widened again this year, which arguably reflects recent challenges the sector has faced.

EGL's discount has widened considerably during the last three months.

The discount as at 27 March 2017 was 13.1%; wider than the board would like or expect it to be. The board has previously said 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 reiterate our view 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 remain positive on the efforts being made to increasing awareness of the trust among investors. As discussed below, EGL's strategy has room to grow.

Figure 17: Premium/(discount) since launch

Source: Morningstar, Marten & Co.

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**

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.

EGL has a strong focus on capital preservation.

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 £103.1m as at 27 March 2018. 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. We also published an update note, *Delivering the goods*, on 9 November 2017.

Figure 18: Marten & Co. previously published research on EGL

Title	Note type	Date
Structural growth, low volatility and high income	Initiation	23 May 2017
Delivering the goods	Update	9 November 2017

Source: Marten & Co.

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