Ecofin Sustainable Listed Infrastructure Strategy

Q2 2021 QUARTERLY COMMENTARY

Strategy objectives

The strategy provides globally diversified exposure to the equity securities of growth-oriented economic infrastructure companies which are committed to the energy transition and have fundamentally strong or rapidly improving environmental, social and governance ('ESG') credentials. The investment objective is to achieve a total return of 6-10% per annum over the long-term, including an income yield of approximately 4% per annum while taking care to preserve capital.

ELECTRIC & GAS UTILITIES
Generation, Transmission & Distribution of Electricity, Gas and Liquid Fuels and Renewable Energies

TRANSPORTATION SERVICES
Roads, Railways, Ports and Airports

ENVIRONMENTAL SERVICES
Water Supply, Wastewater, Water Treatment and Waste Management

Market overview

Equity markets continued to grind higher, driven mostly by strength in cyclical 'value' stocks and leaving typically more defensive sectors lagging until quite late in the second quarter. The central themes of the first quarter – a reflation rally built on vaccine and therefore economic optimism, strong commodity, carbon and power prices, and steepening yield curves – persisted into the second quarter and dominated sector rotations and stock moves.

Despite unease about building inflationary pressures on both sides of the Atlantic, the interest rate context became benign by May and yields at the longer end of the curve came off their recent highs in response, at least in part, to the upswing in COVID-19 variants. Within the utilities space, however, equity investors were still dwelling on the impact of an increasing cost base on margins and growth prospects for renewables, with share prices of renewables pure-plays particularly impacted absent greater clarity on pricing power and future project returns. Pure renewables names were also contending with the lingering negative impact from the restructuring of the large S&P Clean Energy Index in April.

The strength in natural gas prices globally and CO_2 prices in Europe (which reached successive historic highs) has been supporting power prices which are significantly higher across Europe and in the U.S. this year-to-date, providing a tailwind for exposed power generators (A2A, Drax) and energy infrastructure stocks (Williams) to outperform. The strategy's holdings in Chinese power generators China Longyuan and China Suntien Green Power were especially strong performance contributors during the quarter. Transportation infrastructure names such as Ferrovial and Atlas Arteria began to perform too as risks associated with toll road assets began to fade.

Performance and attribution

As of 30 June 2021

(All total returns in USD)	3 months %	6 months %	1 year %	3 years % per annum	ITD* % per annum
Strategy composite** (net)	1.9	1.6	25.1	13.4	10.8
S&P Global Infrastructure Index	2.1	5.0	22.2	4.7	5.0

*26 September 2016. **Strategy composite information provided in the disclaimer on final page.
Source: Ecofin Advisors Limited. Total return includes dividends paid, if any, and reinvested.
Past performance is no guarantee of future returns. Returns may increase or decrease due to currency fluctuations.

The 5 best and worst contributors to performance during the quarter were:

Company
Top 5:
China Longyuan Power
China Suntien Green Energy
Covanta
A2A
Veolia

Company
Bottom 5:
Enel
Iberdrola
Brookfield Renewable
RWE
Neoen

China Longyuan Power and **China Suntien Green Energy** are Chinese power generation companies with most of their generation coming from renewables. These stocks resumed their positive momentum when concerns relating to new renewable project auctions and subsidy payments calmed after the Chinese government released a final version of its policy which was more benign to developers than originally feared. China Longyuan's progress towards an A-share listing and asset swaps with its parent appear on track and should prove further positive catalysts for the stock later this year. China Suntien Green Energy is a developer and operator of wind capacity (4.3GW) and involved in gas transmission and distribution and other renewables (solar, pumped hydro). The company is planning to build an LNG terminal in Hebei (where it already supplies 20% of the province's gas demand) which will handle 5mn tonnes of LNG by the end of 2022. In our view, the shares appear undervalued and have an attractive yield, and Suntien should be a beneficiary of the switch from coal to gas in a very polluted region.

Covanta was also a large positive contributor with the company announcing that a strategic review is underway.

A2A, Italy's largest municipal utility, was added to portfolios in Q4 2020 following what we considered an unjustified decline in the share price as COVID cased began to resurge in Europe. Our expectation of a significant increase in its growth ambitions was duly met at the company's capital markets day in January 2021, while the business continued to benefit from the ongoing rise in Italian power prices, which are materially above pre-pandemic levels. The shares appreciated significantly and the position was sold in June.

Veolia was reintroduced to portfolios when it confirmed it was bidding for its main competitor Suez, having secured Engie's c. 30% stake in Suez. We entered the position in expectation that the deal would succeed and bring significant synergies for Veolia to extract and therefore substantial growth potential for the combined group. A takeover agreement between the two companies' boards was eventually reached mid-April prompting a nice uptick in Veolia's share price.

Shares in **Enel**, **Iberdrola**, **RWE**, **Brookfield Renewable** and **NextEra Energy** all reacted to the headwinds faced by the renewables sector this year with strength in commodities and freight prices threatening to squeeze renewables developer returns for a period. Given the fact that in many regions renewable power purchase agreements are already attractively priced relative to prevailing spot and forward electricity prices, renewables developers should be able to demonstrate they are able to enforce pricing power and can defend future project returns by stabilising and/or increasing power purchase agreement pricing for new renewables projects.

Iberdrola, a global leader in the energy transition, was affected by these headwinds of the sector as well as potential criminal charges brought against the CEO. Management strength runs deep at Iberdrola and the fundamental prospects are strong but the holding was shaved back as this development could cause investors to side-step the shares until a resolution is in sight.

Brookfield Renewable is a Canadian renewables developer and operator with global operations. It sold some assets to Orsted and NextEra Energy Partners and seems to be building a war chest to fund growth or M&A but the market didn't reward the stock for that move last quarter.

Spotlight

This year we have been increasing allocations to companies that are positively exposed to cyclical reflationary forces as well as long-term structural drivers.

Early in the second quarter we sold Beijing Capital International Airport and established a new holding in Alliant Energy, an electric, gas and water utility which is increasing the pace of its transition to using clean energies (wind, hydro and solar) in Wisconsin and neighbouring states.

We made some further adjustments more recently to reduce exposure to regulated names and bolster those with inflation-pass throughs and/or sensitivity to higher commodity prices and a cyclical upswing in growth. A2A was sold after an especially strong run higher in its shares and so was REN (Redes Energeticas Nacionais). These made room for new positions in: Uniper (75% owned by Fortum), one of Europe's largest electricity generators (primarily sourced from natural gas, hydro and nuclear) spun out from E.ON a few years ago; Atlantia, an Italian owner of toll roads and airports globally; and AENA, Spain's monopoly airport owner which should be among the early beneficiaries of the reopening of leisure travel in Europe. We have also participated in the IPO of Acciona Energia, the 100% pure renewable energy company listed on the Spanish exchange with 11GW of renewables in operation, heading for 20GW by 2025.

Yield

The yield on the strategy was 3.8% at 30 June. We are seeing a strong rebound in dividend receipts this year given the resilience in demand for most of the portfolios' essential services and the call for renewable energy. We anticipate that longer term growth in income will be +5-7% per annum.

Outlook

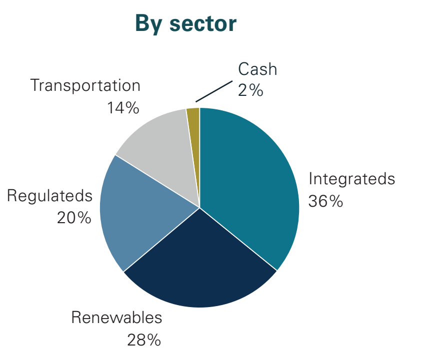
A progressive improvement in economic conditions should prevail in 2021 with an initially super-charged economic recovery settling down to a more maintainable rate. We expect the major trends for this strategy's investment universe and the energy transition thematic in place prior to the pandemic to continue apace, as few major activities geared to decarbonisation have slowed or been reoriented due to the health crisis. Moreover, the policy environment is rapidly becoming more supportive; with the U.S. re-joining the Paris Agreement over 70% of global GDP has committed to full decarbonisation. Climate policy ambition around the world, while certainly facilitated by greater public awareness of environmental issues, is largely being driven by the substantial decline in the cost of renewable energy technologies, which now allow for a reduction in end-user electricity tariffs in most countries when replacing fossil fuels with wind and solar.

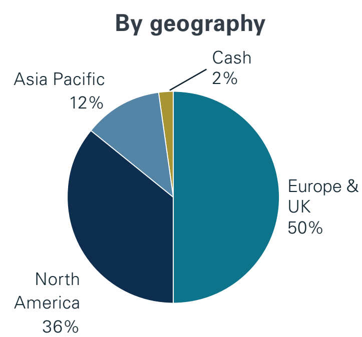
In the U.S., the Biden administration is pursuing comprehensive legislation aimed at green infrastructure and climate change initiatives which, with a narrow majority in both chambers, are likely to be passed (in some format). Its single biggest objective is to commit the U.S. to a zero-net-carbon goal by 2050 and to attach meaningful near-term targets and means to achieve that. One of those is 100% decarbonization of the utility system by 2035 for the following reasons: substantial sums of money spent on renewables projects will not add significantly to customers' bills; many States, legislators and voters like clean energy projects and their positive impact; and the electric grid is destined to be the decarbonization conduit for almost everything else.

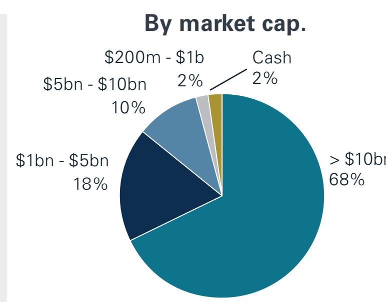
We think the major shift this creates – beyond offering meaningful direct investment incentives – will be to change the mindset of American corporate boards and promote a greater sense of willingness and urgency, regardless of political inclination. The days of companies lobbying actively against decarbonisation initiatives are waning, in favour of adoption and transition. In China, with Xi Xingping having formally announced China's intention to achieve carbon neutrality by 2060, internal activities to decarbonise are accelerating. Together with Europe's and the UK's established leadership in this arena, we can see a more comprehensively global opportunity to address climate policy.

The strategy's allocations to more economically cyclical sub-sectors, such as waste management services, airports, and energy and road infrastructure, have tended to move in and out of stock market favour. Nonetheless, they remain important diversifiers in an infrastructure portfolio, providing ballast and exposure to a recovery in industrial activity and transport volumes, as well as longer term opportunity considering the replacement cycle necessary for old infrastructure. While uncertainty continues around the extent and timing of (particularly air) traffic recovery, we are confident that the steady roll-out of effective vaccines will enable a resumption of normal travel trends, both nationally and internationally. We continue to monitor the space closely for additional investment opportunities.

As of 30 June 2021







ESG/sustainability highlight

The strategy continues to screen well in terms of carbon emissions, i.e., tonnes of CO_2 emitted per megawatt hour of electricity generation. Electricity generators in the strategy's portfolios generally have CO_2 emissions which are significantly below the average emissions of their relevant electricity grid and the companies sitting in the global utilities index. We do not set firm ex-ante limits on fossil fuel exposure and this strategy invests in companies in transition to better growth and ESG profiles (rather than permitting only 'clean' stocks). Nevertheless, at a portfolio level our approach delivers an emissions profile which is well within the spectrum of typical impact funds. As at 30 June, the strategy's electricity generators had CO_2 emissions which were 30% below the average emissions of the electricity grid in which the companies operate, largely because of a relatively small reliance on coal (only 8% of the mix), and 30% lower than those of companies in the global utilities index (as measured in tCO_2/$million invested). The companies screen even better on a forward-looking basis.

Disclaimers

This commentary contains certain forward-looking statements. These forward-looking statements include all statements regarding the intent, belief or current expectations regarding matters covered and all statements which are not statements of historical fact. The forward-looking statements involve known and unknown risk, uncertainties, contingencies and other factors, many of which are beyond our control. Since these factors can cause results, performance and achievements to differ materially from those discussed in the presentation, you are cautioned not to place undue reliance on the forward-looking statements.

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All investing involves risk. Principal loss is possible. The risks of investing vary depending on an investor's particular situation.

Past performance is no guarantee of future results. Returns may increase or decrease due to currency fluctuations.

Index Information:

The MSCI ACWI Index captures large and mid cap representation across 23 Developed Markets and 26 Emerging Markets countries. The index covers approximately 85% of the global investable equity opportunity set.

The S&P Global Infrastructure Index The S&P Global Infrastructure Index is designed to track 75 companies from around the world chosen to represent the listed infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation, and utilities.