

Ecofin Global Utilities and Infrastructure Trust

Resilient income

Investors in search of income have been hit hard by the COVID-19 crisis. Bond yields and interest rates have tumbled, and dividend cuts have proliferated. By contrast, the companies in Ecofin Global Utilities and Infrastructure Trust's (EGL's) portfolio have proved relatively resilient. In addition, when paying its dividend, EGL is able to use its distributable reserves to top up any shortfall in revenue that might occur.

The defensive attractions of the sector have been recognised and, as investors are drawn towards the trust, EGL is now issuing shares to meet demand and prevent its shares from trading at an excessive premium to net asset value (NAV).

EGL's manager has been taking advantage of weak markets to build positions in selected opportunities at attractive valuations. This strategy is already bearing fruit. After a period where there have been few transactions, he expects to see more merger and acquisition activity as markets recover. This could prove beneficial to EGL's portfolio.

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.

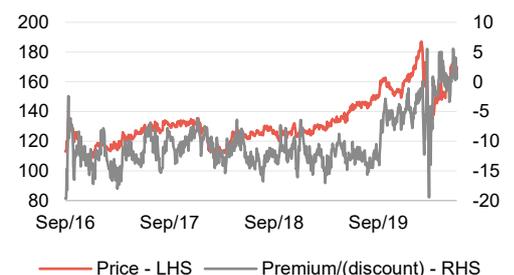
Year ended	Share price TR (%)	NAV total return (%)	MSCI World Utilities TR (%)	MSCI World TR (%)	MSCI UK TR (%)
31/05/17 ¹	15.3	6.5	8.2	13.0	11.8
31/05/18	5.6	1.4	(4.4)	8.8	5.7
31/05/19	11.0	14.7	18.7	5.9	(2.4)
31/05/20	24.1	10.5	6.5	9.5	(13.1)

Source: Morningstar, Marten & Co. Note 1) period from launch on 26 September 2016

Sector	Infrastructure securities
Ticker	EGL LN
Base currency	GBP
Price	170.0p
NAV	167.0p
Premium/(discount)	1.8
Yield	3.9%

Share price and premium

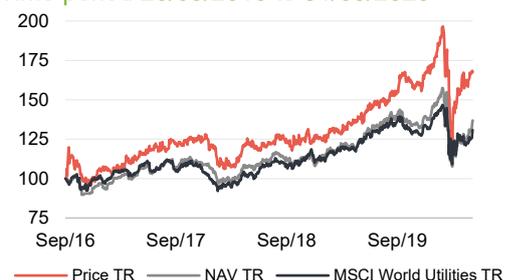
Time period 26/09/2016 to 23/06/2020



Source: Morningstar, Marten & Co

Performance since launch

Time period 26/09/2016 to 31/05/2020



Source: Morningstar, Marten & Co

Domicile	United Kingdom
Inception date	26 September 2016
Manager	Jean-Hugues de Lamaze
Market cap	159.6m
Shares outstanding	93.898m
Daily vol. (1-yr. avg.)	247,821 shares
Net gearing	12.7%

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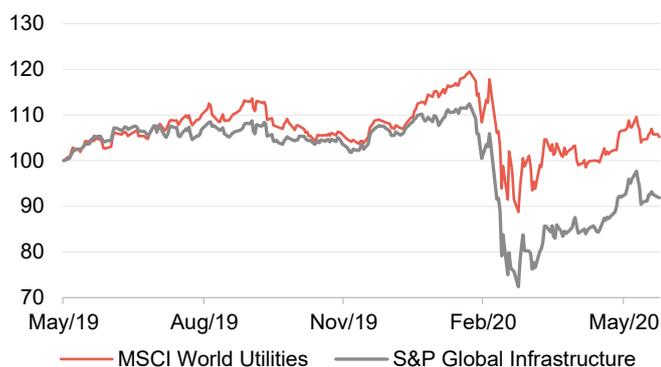
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Pandemic overshadows markets

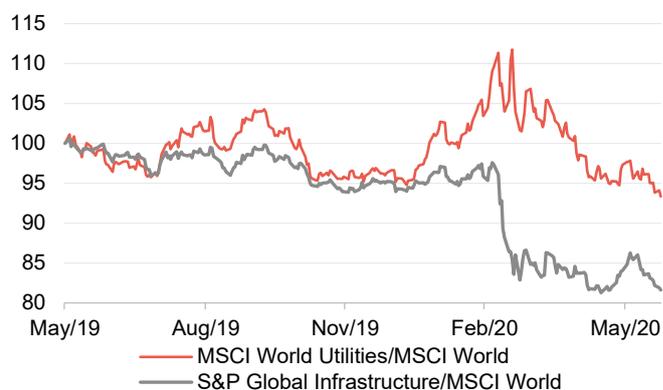
There has been considerable dispersion of returns between utilities and infrastructure stocks over the past few months (the investment managers definition of utilities and infrastructure is shown on page 16). Figure 1 shows how the global utilities sector and global infrastructure sectors have been performing, using the MSCI World Utilities Index and S&P Global Infrastructure Index as examples. Figure 2 shows how those indices have performed relative to global markets (represented by the MSCI World Index). Both have underperformed since 31 May 2019 but, on average, utilities stocks have done much better than infrastructure stocks.

Figure 1: MSCI World Utilities and S&P Global Infrastructure, rebased to 100



Source: Morningstar, Marten & Co.

Figure 2: MSCI World Utilities relative and S&P Global Infrastructure relative to MSCI World



Source: Morningstar, Marten & Co.

Figure 3: Fraport share price (EUR)



Source: Bloomberg

The solid, defensive characteristics of the utilities sector (defensive sectors are those that are less sensitive to economic activity) are attracting investors. However, those parts of the infrastructure sector whose revenues are linked to economic activity, toll roads and airports in particular, have sold off as the numbers of people using these has been hit by lockdowns.

For example, Fraport (the operator of a number of airports, including Frankfurt airport, and a stock that is not held by EGL) fell by 37% over the year to the end of May 2020.

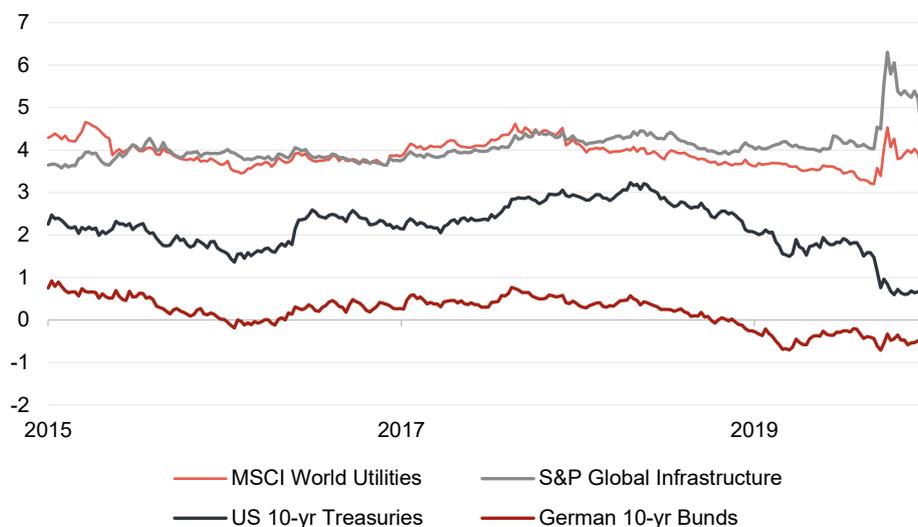
The share prices of most regulated utilities are pretty much flat over the year, while some have risen in value and this relatively good performance and resilience has extended to many integrated utilities too, which have an attractive combination of regulated businesses and solid growth related to the switch to renewable sources of energy such as wind and solar. Jean-Hugues believes that such moves are justified by the fundamentals of these businesses.

Resilient source of income

In the wake of the pandemic and the measures taken to prop up economies, yields on government bonds and cash look likely to remain close to historic lows, and inflation may soon become deflation. Lower long-term interest rates should be positive for sentiment towards utilities.

Figure 4 shows how the yields on utilities and infrastructure stocks compares with the yields on government bonds issued by the US and Germany. German government bond yields have been negative for some time.

Figure 4: Yields on utilities and infrastructure versus government bond yields



Source: Bloomberg

EGL has limited exposure to UK regulated water companies, which are sensitive to falling inflation

Falling inflation is usually a negative for UK regulated companies, especially UK water companies. EGL already has limited exposure to this area. Pennon is in the portfolio, but Jean-Hugues says that the attraction here was principally Pennon’s Viridor recycling and waste management business. This is being sold to Planets UK Bidco Limited, a newly-formed company established by funds advised by the private equity firm Kohlberg Kravis Roberts & Co. LP (KKR), for £4.2bn, representing an EV/EBITDA multiple of 18.5x.

Investors who are reliant on dividend income now face a swathe of dividend cuts. EGL’s portfolio has not been immune to this, but it has fared relatively well in this regard (see below).

Impact on EGL – largely unaffected

When we talked to Jean-Hugues in preparation for this note, 90% of companies in the portfolio had published an update on the impact of COVID-19 on their company. 80% of the companies in the portfolio confirmed previous earnings guidance and confirmed they would pay their dividends.

Figure 5: NextEra Energy share price (USD)



Source: Bloomberg

For example, NextEra Energy (www.nexteraenergy.com), the largest position in the portfolio at the end of May 2020, says it will be disappointed if it is not able to deliver financial results at or near the top end of its adjusted EPS expectation ranges for 2020, 2021 and 2022. NextEra Energy is the US’s largest electricity utility (largely serving customers in Florida) and a world leader in renewable energy generation from wind and solar. Earnings growth is underpinned by the company’s considerable investment programme (it expects to spend \$50bn-\$55bn between 2019 and 2022) and cost savings yet to be extracted from its January 2019 acquisition of Gulf Power. NextEra Energy feels confident enough to predict 12% dividend growth in 2020 and around 10% growth in 2021 and 2022.

In these uncertain times, companies such as NextEra Energy can draw comfort from the predictability of revenues which are largely regulated or subject to long-term power purchase agreements (PPAs) with credit-worthy counterparties.

Figure 6: Covanta share price (USD)



Source: Bloomberg

Some dividend cuts/suspensions

Around 9% of positions in the portfolio had reduced or suspended their dividends. Some of these were companies whose revenues are linked to industrial activity, for example waste management companies Suez, Veolia and Covanta.

Covanta (www.covanta.com), which is the largest waste incinerator company in the US, was one of the stocks that has dropped out of the list of the 10 largest holdings (see page 9). We discussed it in our 2017 initiation note and again in our October 2018 note.

Other utilities faced calls from politicians to suspend dividend payments. Within EGL's portfolio, in France Engie and EDF, which are partly state-owned, were forced to comply. However, in Germany RWE and EON argued successfully that they were commercial companies that should be free of State interference.

Some yet to pronounce

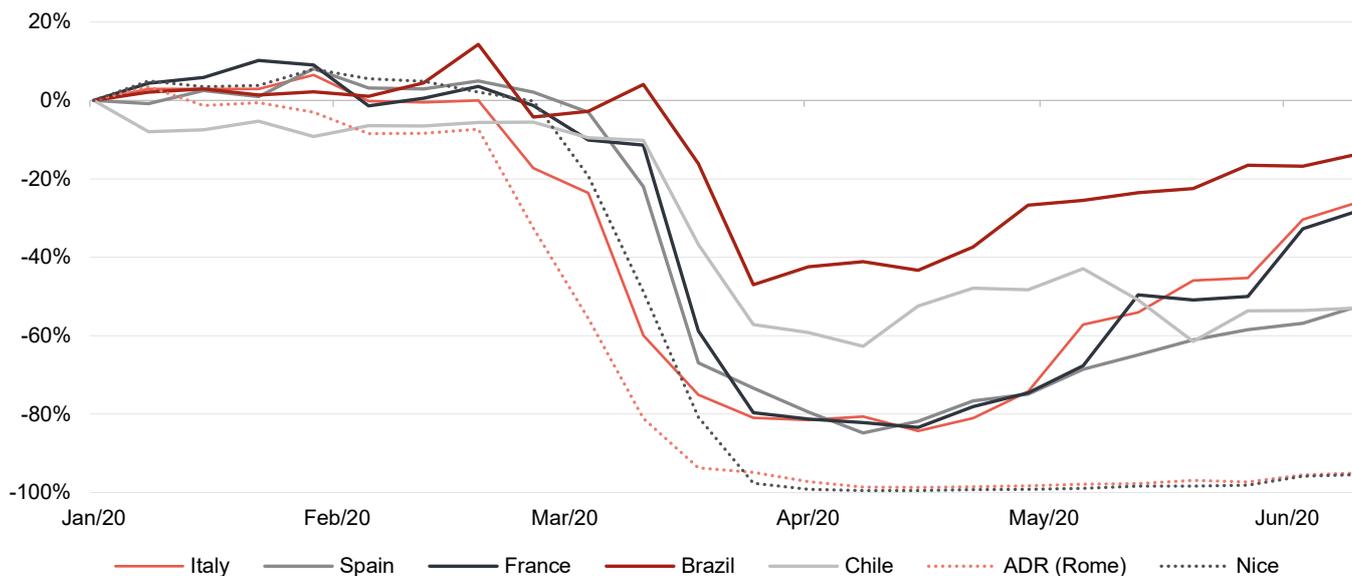
At the time of our meeting, the remainder had yet to communicate. Among these were UK companies such as SSE, and Jean-Hugues thought this may reflect political uncertainty. He decided to assume a worst-case scenario and reduced EGL's exposure to SSE. SSE has reiterated its dividend policy since then, which Jean-Hugues feels is further evidence of the fundamental strength of EGL's portfolio holdings and investment universe.

Opportunistic purchases

Toll roads to recover faster than airports

Jean-Hugues has been looking for opportunities to take advantage of weak share prices to add to EGL's infrastructure exposure. He is favouring toll roads over airports as he expects much faster recovery in road traffic than air travel. Airport companies have been hit by loss of retail income as well as landing fees. With many airlines in trouble, airports may find that there is pressure on fees going forward.

Figure 7: Atlantia traffic statistics for 2020 year to date, percentage change from 1 January 2020



Source: Atlantia Group.

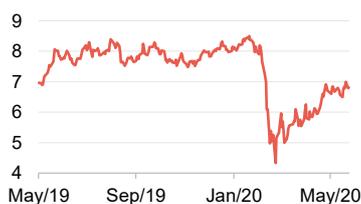
Italian transport infrastructure company Atlantia publishes weekly data on traffic on its toll roads and through its airports, which illustrate this. In Figure 7, the traffic statistics

on toll roads in the various countries that it operates in are shown with solid lines and the traffic statistics for the company’s two airports (Fiumicino, Aeroporto di Roma and Nice Côte d’Azur) are shown with dotted lines.

Other companies in this category include Atlas Arteria (formerly Maquarie Atlas Roads) and Ferrovial. These are both existing holdings within EGL’s portfolio which have been increased.

Atlas Arteria

Figure 8: Atlas Arteria share price (AUD)



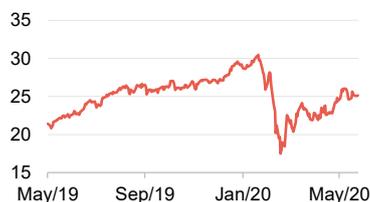
Source: Bloomberg

Atlas Arteria (www.atlasarteria.com), which we discussed in detail in our last note, is a global operator and developer of toll roads, with an interest in the APRR and ADELAC toll roads, a 2,318km motorway network in the east of France. In the US, it owns a 100% economic interest in the Dulles Greenway, a 22km toll road in the Commonwealth of Virginia, and in Germany it owns the Warnow Tunnel in the north-east city of Rostock.

Its 2020 dividend guidance was for a 20% increase to 36 cents per share (a 5.3% yield on the current share price). However, given a two-thirds drop in traffic over the second half of March in its French and US assets and a one-third drop in Germany, the dividend that would have been paid in March was suspended (later cancelled) to conserve cash. In May, Atlas Arteria raised AUD420m, in an oversubscribed issue, with the aim of restructuring its balance sheet and reducing its overall debt.

Ferrovial

Figure 9: Ferrovial share price (EUR)



Source: Bloomberg

Ferrovial (www.ferrovial.com) manages 1,474m km of roads in nine countries, and Heathrow, Glasgow, Aberdeen and Southampton airports. It also has a construction company with a strong presence in the transportation sector and a services company with operations in the water treatment and electricity sectors, amongst others. The services business is up for sale.

Again, the toll roads and airports were hit by COVID-19 restrictions, with the airports worst affected. The group’s construction activities in Spain were not much impacted. Ferrovial had a strong balance sheet ahead of the crisis, with €1.6bn of free cash outside the infrastructure assets. To date, its dividend has not been affected and recovering toll road traffic should be supportive going forward.

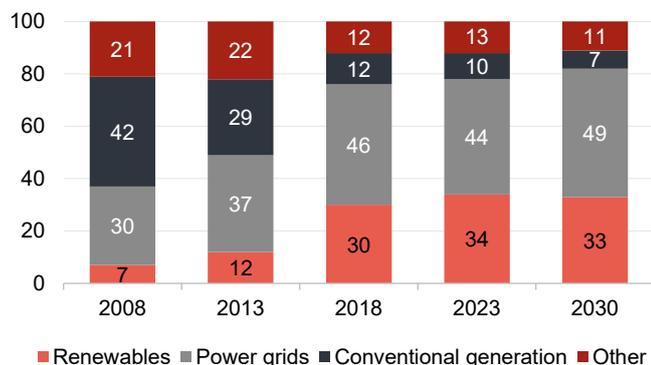
Power prices weaker

COVID-19 put further downward pressure on power prices

Power prices were trending downwards ahead of the crisis. Coal and natural gas prices have been falling and this has been feeding through into power prices. A COVID-19-related drop in electricity demand has introduced further downward pressure. Jean-Hugues points out that power prices are still above the lows of 2016/17.

More importantly for the sector perhaps spot power prices are less of a concern for many generators. Jean-Hugues says that revenues for many generators are about 80% regulated or contracted under long-term power price agreements (PPAs). Figure 10 shows how the income split for EU utilities companies has changed since 2008 and is forecast to change by 2030. Revenue from conventional generation will be a much lower proportion as revenue from renewables and income earned from the investment needed in power grids to support that increased renewable generation rises.

Figure 10: EBITDA split by activity for EU Utilities



Source: Goldman Sachs via Tortoise Advisors UK

Figure 11: EUA – the EU Emissions Trading System carbon market



Source: ICE via Ember - ECX EUA Futures prices, Continuous Contract #1

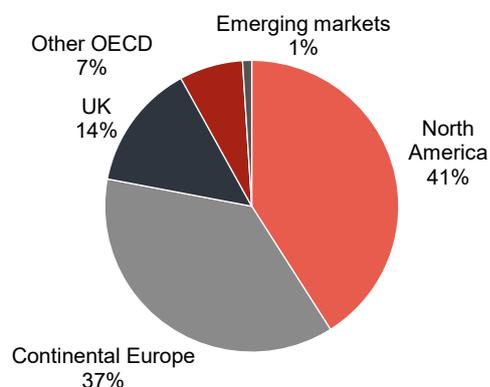
In addition, as figure 11 shows, CO₂ prices have remained pretty steady, which removes one element of uncertainty for the generators.

Asset allocation

The distribution of EGL’s portfolio by geography did not change much between 30 September 2019 (the data we used in our last note) and 31 May 2020. The allocation to emerging markets fell from 3% to 1% and the allocation to OECD countries ex Europe, North America and the UK, rose to 7% from 3%. On a sector basis, the allocation to transportation is higher, reflecting the opportunistic purchases we referred to above.

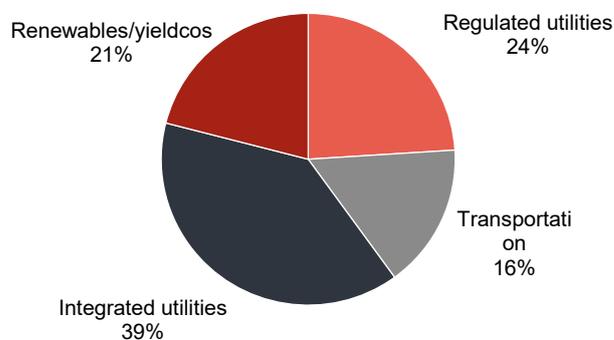
Jean-Hugues increased EGL’s borrowing (gearing) to take advantage of lower valuations at a time when growth and income prospects for EGL’s portfolio companies have arguably improved on a relative basis (i.e., compared to the overall market). At the end of May this was 12.7%, having been as high as 15% and 7.4% at the end of January, ahead of the COVID-19-related market falls.

Figure 12: Geographic allocation as at 31 May 2020



Source: Ecofin Global Utilities and Infrastructure Trust

Figure 13: Sub-sector allocation as at 31 May 2020



Source: Ecofin Global Utilities and Infrastructure Trust

Figure 14: Top 10 holdings as at 31 May 2020

Holding	Sector	Geography	Allocation 31 May 20 (%)	Allocation 30 Sep 19 (%)	Change (%)
NextEra Energy	Renewable energy	US	5.7	6.2	(0.5)
Enel	Integrated utilities	Italy	5.5	4.4	1.1
EDP	Integrated utilities	Portugal	5.5	4.1	1.4
RWE	Integrated utilities	Germany	4.5	3.7	0.8
Iberdrola	Integrated utilities	Spain	4.3	4.8	(0.5)
Endesa	Integrated utilities	Spain	3.9	-	3.9
National Grid	Regulated utilities	UK	3.7	3.1	0.6
Exelon	Integrated utilities	US	3.6	3.6	-
Engie	Integrated utilities	France	3.0	3.8	(0.8)
Evergy	Integrated utilities	US	3.0	2.0	1.0
Total of top 10			42.7		

Source: Ecofin Global Utilities and Infrastructure Trust

Since 30 September 2019, SSE, Covanta and NextEra Energy Partners have dropped out of the top 10 and have been replaced by Endesa, National Grid and Evergy, we discuss these below.

Endesa

Figure 15: Endesa share price (EUR)



Source: Bloomberg

Endesa (www.endesa.com/en) is Spain’s largest energy utility and the second-largest in Portugal (after EDP, which EGL also holds). Around 70% of the company is owned by Enel. The company has been investing heavily in renewable energy generation (hydro, wind and solar) and areas such as smart meters and electric vehicle charging. Endesa’s remaining mainland coal plants are scheduled to be phased out by 2022.

Endesa is not a stock that EGL has had much exposure to in the past. However, a run of poor share price performance had, in Jean-Hugues’ view, left it trading at an attractive value. It offered around an 8% yield when he began to build the position. It has done well subsequently.

National Grid

Figure 16: National Grid share price



Source: Bloomberg

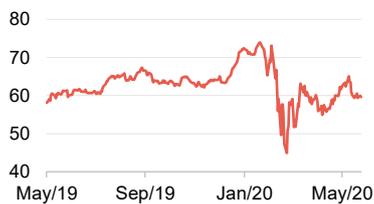
National Grid (www.investors.nationalgrid.com) was discussed in our note published October 2018. The company owns the high-voltage electricity and high-pressure gas transmission system in England and Wales, and is responsible for balancing supply and demand on the electricity network across Great Britain. It also has a presence in the US where it provides electricity to Massachusetts, upstate New York, Rhode Island and Vermont, and natural gas to customers in New York, Massachusetts and Rhode Island.

National Grid’s share price was depressed last year on fears that a possible Labour government would seek to nationalise the company’s UK operations. The decisive Conservative victory in the December 2019 election allayed those fears.

COVID-19 has had minimal impact on the company’s revenues. However, the company has suspended debt collection and customer termination activities in the US, which could translate into higher bad debt provisions.

The shift in the UK’s generation mix towards renewables requires more investment in the power grid, which should underpin National Grid’s growth. In the UK, a regulatory review process is underway and a draft determination is expected shortly.

Figure 17: Evergy share price (US\$)



Source: Bloomberg

Evergy

Evergy (www.evergyinc.com) was formed in 2018 with the merger of Kansas City Power & Light and Westar Energy Inc. The company generates and distributes power to 1.6m customers in Kansas and Missouri. The generation mix is changing as the company invests in renewable energy (both on its own balance sheet and through PPAs) and also upgrades its power grid.

In the short-term, sales of power have been impacted by COVID-19 (commercial sales were 13% lower and industrial sales 15% lower in April 2020 versus April 2019). The company plans to invest \$7.6bn over the next five years, but says it has sufficient liquidity and no need to raise additional equity. It has a cost-cutting programme in place (linked to the merger) and is exceeding its targets in this area. No new regulatory rate determination is planned until 2022.

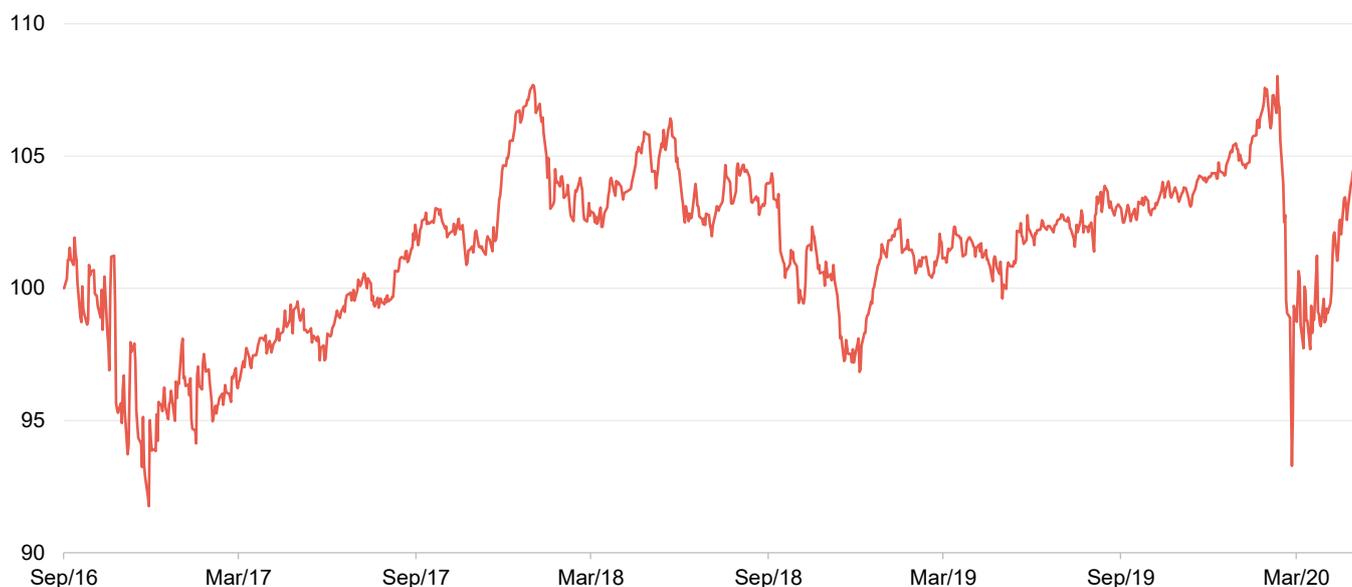
Other stocks that have been added to the portfolio include TransAlta, a Canadian yieldco and Canada’s largest clean electricity provider (www.transalta.com), Jean Hugues likes its solid dividend, and First Energy (www.firstenergycorp.com), an Ohio-based integrated power generation business that Jean-Hugues believed was trading at an attractive price, after the sharp falls in NextEra’s share price in March (page 5) hit sentiment and dragged down the whole sector.

Performance

Up-to-date information on EGL is available on the QuotedData website

After an extended period of strong absolute and relative performance, EGL was impacted by the market’s loss of confidence in the face of the COVID-19 outbreak. The sharp sell-off proved short-lived, however, and EGL has recovered most of the ground it lost. Investors’ appreciation of the attractions of the utilities market, in particular, has helped drive the recovery. An easing of lockdown restrictions should benefit EGL’s transportation holdings and provide further impetus to performance.

Figure 18: EGL NAV/MSCI World Utilities Index, rebased to 100, from launch to end May 2020



Source: Morningstar, Marten & Co.

As figure 18 shows, EGL’s NAV has outperformed the MSCI World Utilities Index since launch and, when combined with the elimination of the discount, EGL’s shareholders have benefitted from attractive levels of income and capital growth.

Figure 19: Cumulative total return performance to 31 May 2020

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	From launch ¹ (%)	Volatility ² (%)
EGL NAV	9.2	(4.2)	1.6	10.5	28.5	36.9	17.6
EGL share price	0.5	1.7	4.0	24.1	45.4	67.6	27.5
MSCI World Utilities	6.4	(1.8)	0.8	6.5	20.9	30.8	17.8
MSCI World	7.0	4.4	(0.8)	9.5	26.1	42.6	17.0
MSCI UK	3.1	(7.7)	(16.8)	(13.1)	(10.3)	0.2	16.3
S&P Global Infrastructure	7.4	(8.4)	(11.2)	(8.0)	0.1	9.0	17.3

Source: Morningstar, Marten & Co. Note 1) EGL was launched on 26 September 2016. Note 2) Volatility is the annualised standard deviation of daily returns from EGL’s launch on 26 September 2016 to 31 May 2020.

Returns have been especially strong relative to the UK market. The weakness of sterling is one component of this, but the manager sees many more attractive investment opportunities in overseas markets than in the UK.

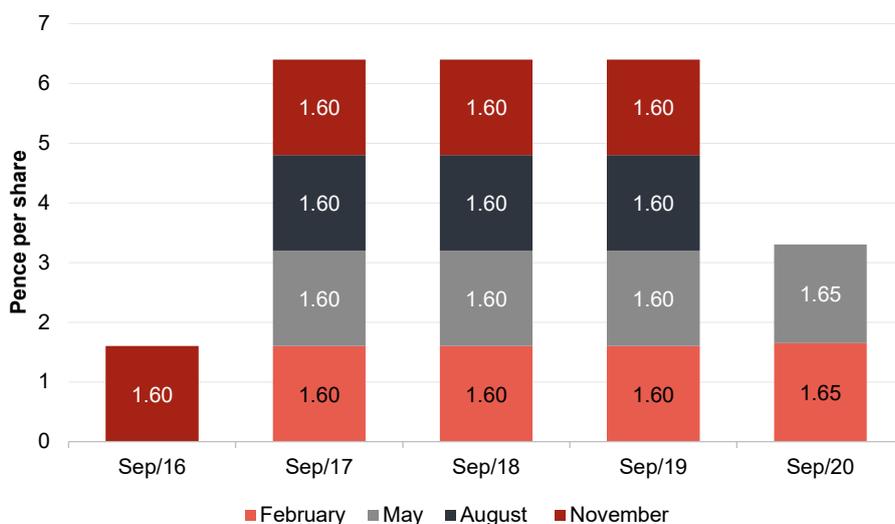
Quarterly dividend payments targeting at least 4% of NAV per annum

Target of 4% yield on net assets, with ability to top up dividends from distributable reserves

EGL targets a dividend yield of at least 4% on its net assets. The portfolio generates a reasonable level of income but the trust has the flexibility to augment this with gearing and, if necessary, using its distributable reserves (the result of cancelling its share premium account) to make up any shortfall in its dividend target. For the year ended 30 September 2019, the trust’s revenue was 5.48p per share, sufficient to cover the dividend 0.86x. The equivalent figures for the trust’s 2018 financial year (FY18) were 4.82p and 0.75x.

Dividends are paid on the last business day of February, May, August and November.

Figure 20: Dividends payable for accounting years ended 30 September



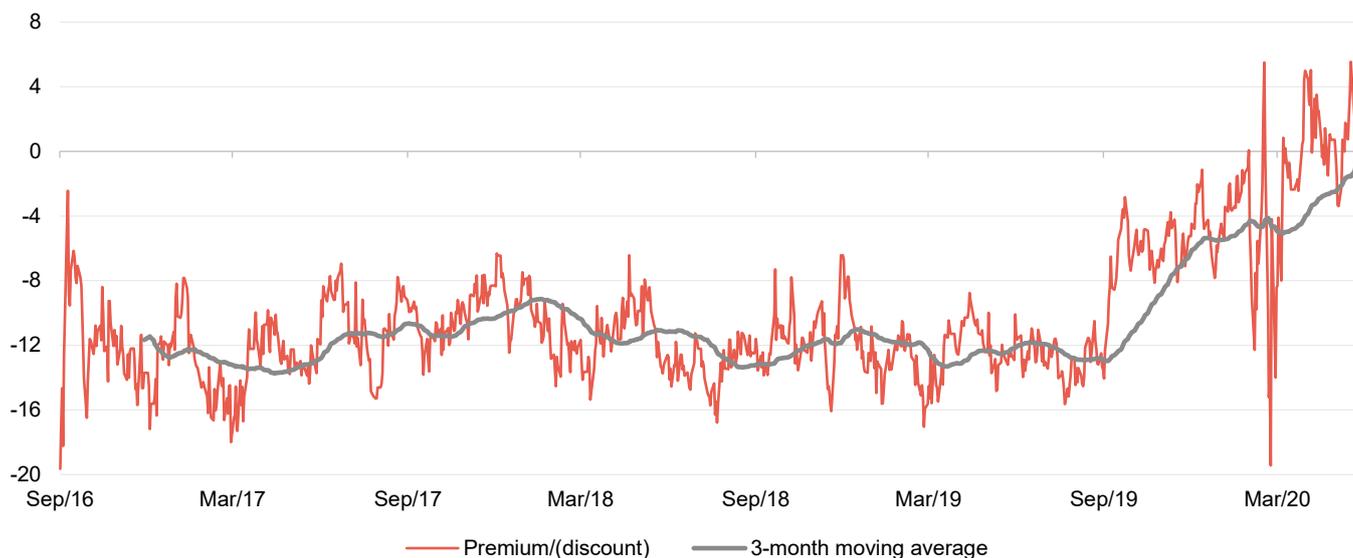
Source: Ecofin Global Utilities and Infrastructure Trust

In December 2019, the board resolved to increase the quarterly dividend by 3.1% to 1.65p per share, per quarter, equivalent to 6.6p per annum. In the interim report published on 21 May, the chairman reported that revenue was expected to be approximately 9% lower for the trust’s full accounting year, compared to the previous year. This would reduce the dividend cover in the short term. However, over the medium term, growth in portfolio income is expected to lead to improving dividend cover and the chairman says that this should enable a resumption of EGL’s strategy of increasing dividends.

Premium/(discount)

Over the 12 months ended 31 May 2020, EGL’s shares traded between a discount of 19.4% and a premium of 5.5%, and averaged a 7.0% discount but the clear trend was for an elimination of the discount and a shift to trading at a premium to NAV. At 23 June 2020, EGL’s premium was 1.8%.

Figure 21: Premium/(discount) since launch



Source: Morningstar, Marten & Co.

EGL is expanding to meet demand from investors

EGL’s rating improved sufficiently to justify the issue of 750,000 new ordinary shares in April 2020, 851,176 over the course of May and a further 425,000 over June, to date. All of these shares were issued at a premium to asset value in accordance with EGL’s policy on share issuance. This has the effect of enhancing the NAV for pre-existing shareholders. Expanding the trust should also have the twin benefits of improving liquidity in the shares and lowering the ongoing charges ratio as fixed costs are spread over a wider base.

Fees and expenses

EGL does not pay a performance fee

Tortoise Advisors UK Limited is entitled to a fee of 1% of net assets per annum. This is calculated quarterly. There is no performance fee. The fee is charged 50% against revenue and 50% against capital.

For the accounting year ended 30 September 2019, the other expenses of note were an administration fee of £261,000 (FY18: £255,000), directors' remuneration of £107,000 (FY18: 118,000), advisory and legal fees of £104,000 (FY18: £196,000) and depositary fees of £65,000 (FY18: £58,000).

The administrator is BNP Paribas Securities Services S.C.A. and it delegates company secretarial services to BNP Paribas Secretarial Services Limited. The directors' remuneration is broken down on page 14. The depositary is Citibank Europe Plc.

Ongoing charges on a declining trend

The ongoing charges ratio for the year ended 30 September 2019 was 1.68% (FY18: 1.99%). The fall in ongoing charges reflects a 0.25% per annum reduction in the management fee which took effect on 5 March 2019, the increase in the NAV of the fund (as fixed costs are spread over a wider base) and the fall in the amount spent on advisory and legal fees. At the half-year stage (31 March 2020), EGL's ongoing charges ratio was estimated to be 1.48%.

Capital structure and trust life

EGL has one class of ordinary share in issue. It can gear up to 25% of net assets.

EGL has a simple capital structure with one class of ordinary share in issue. Its manager has discretion to borrow up to 25% of EGL's net assets, but its articles of association state that it will not have any structural gearing. EGL's ordinary shares have a premium main market listing on the London Stock Exchange and, as at 23 June 2020, there were 93,898,423 in issue with none held in treasury.

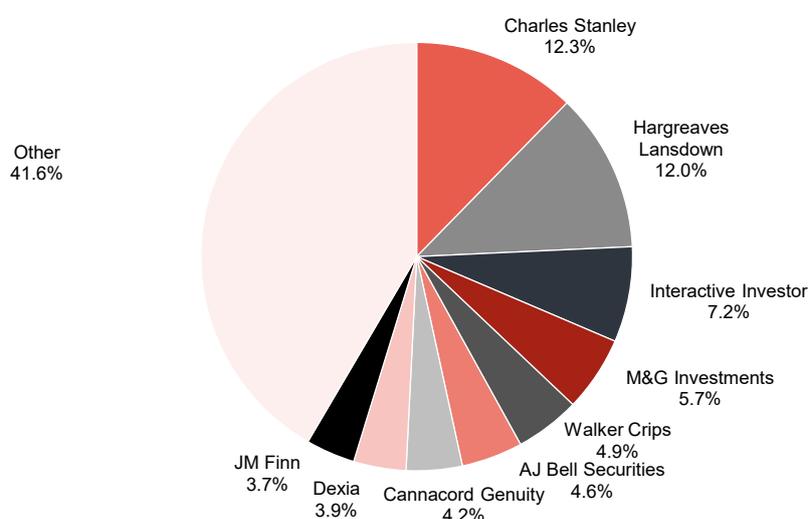
The trust's year-end is 30 September. The annual results are usually released in December (interims in May) and its AGMs are usually held in March of each year. EGL has an unlimited life, but offers its shareholders a continuation vote at five-yearly intervals. The last continuation vote was conducted at the AGM in March 2019. The resolution was passed with 97.5% of votes cast in favour of continuation.

Gearing

EGL has a prime brokerage facility with Citigroup Global Markets Limited and benefits from a flexible borrowing arrangement. The interest rate on borrowings under the Prime Brokerage Agreement depends on the currency of the borrowing, but is generally 50 basis points (0.5%) over the applicable LIBOR rate. The gearing is not structural in nature and borrowings can be repaid at any time. At the end of May 2020, EGL had gearing of 12.7%.

Major shareholders

Figure 22: EGL shareholder base as at 31 May 2020



Source: Bloomberg

Board

EGL’s board is comprised of four directors, all of whom are non-executive and, with one exception – Martin Nègre – are considered to be independent of the investment manager. Martin is not considered to be independent, as he is also chairman of two other funds managed by Tortoise – the Tortoise Vista Long-Short Fund and the Tortoise Global Renewables Infrastructure Fund.

Susannah Nicklin will join the board later this year

A new director, Susannah Nicklin, has been recruited. She will join the board on 9 September 2020. Susannah is an experienced non-executive director and financial services professional, having been in executive roles in investment banking, equity research and wealth management at Goldman Sachs and Alliance Bernstein in the U.S., Australia and the U.K. She has also worked in the impact sector with Bridges Ventures and the Global Impact Investment Network, and holds the Chartered Financial Analyst qualification.

Figure 23: Board member - length of service and shareholdings

Director	Position	Date of appointment ¹	Length of service (years) ¹	Annual director’s fee (GBP)	Shareholding ²
David Simpson	Chairman of the company and chairman of the Management Engagement Committee	26 September 2016	3.7	33,000	94,050
Iain McLaren	Chairman of the Audit Committee and senior independent director	26 September 2016	3.7	28,000	23,873
Martin Nègre	Director	26 September 2016	3.7	25,000	1,281,455
Max King	Chairman of the Remuneration Committee	11 September 2017	2.8	25,000	20,000

Source: Ecofin Global Utilities and Infrastructure Trust, Marten & Co. Note 1) Date of appointment reflects appointment to EGL’s board, three directors were directors of Ecofin Water and Power Opportunities Plc, EGL’s predecessor. Note 2) Shareholdings as at 23 June 2020.

EGL’s articles of association require that all board members offer themselves for re-election annually and limit total directors’ fees to £200,000 per annum. Other than

EGL's board, its directors do not have any other shared directorships and, as illustrated in Figure 23, all of the directors have personal investments in the trust.

David Simpson

David Simpson is a qualified solicitor and was a partner at KPMG for 15 years until 2013, culminating as global head of M&A. Before that he spent 15 years in investment banking, latterly at Barclays de Zoete Wedd Ltd. He is chairman of M&G Credit Income Investment Trust Plc, a director of the British Geological Survey and a director of ITC Limited, a major listed Indian company. David was appointed to the board of Ecofin Water and Power Opportunities, the predecessor company to EGL, on 23 May 2014.

Iain McLaren

Iain McLaren is a chartered accountant and was a partner at KPMG for 27 years, including senior partner in Scotland from 1999 to 2004, retiring from the firm in 2008. He is a non-executive director of Edinburgh Dragon Trust Plc, Wentworth Resources Plc and Jadestone Energy Inc. He is a past president of the Institute of Chartered Accountants of Scotland. Iain was appointed to the board of Ecofin Water and Power Opportunities, the predecessor company to EGL, on 29 March 2011.

Martin Nègre

Martin Nègre was, until June 2001, the chief executive officer of Northumbrian Water Plc, then a subsidiary of Suez Lyonnaise des Eaux, and Suez Lyonnaise's chief corporate representative in the UK. Prior to that, he was Suez Lyonnaise's international director in Paris and then its Asia-Pacific president in Hong Kong and Singapore. Before that, he spent 21 years with Alstom and GEC Alstom, the Anglo/French engineering company, where he was a senior executive and the chief executive officer of the power generation division. He is chairman of the Tortoise Vista Long-Short Fund and the Tortoise Global Renewables Infrastructure Fund and a non-executive director of Northumbrian Water Limited and Messrs Hottinger & Cie, Paris. Martin was appointed to the board of Ecofin Water and Power Opportunities, the predecessor company to EGL, on 5 December 2001.

Malcolm (Max) King (director)

Max King is a chartered accountant and has over 30 years' experience in fund management, having worked at Finsbury Asset Management, J O Hambro Capital Management and Investec Asset Management. He is currently a non-executive director of Henderson Opportunities Trust Plc and of Gore Street Energy Storage Fund Plc.

Fund profile

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

Further information regarding EGL can be found on the manager's website:
www.tortoiseadvisors.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, and 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 earnings per share 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; and
- 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 S&P Global Infrastructure 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.

Manager

Tortoise Advisors UK Limited is EGL's investment manager and AIFM. Tortoise Advisors UK is a subsidiary of Tortoise Investments, LLC (Tortoise) a privately-owned US-based firm which owns a family of investment management companies. At the end of April 2020, Tortoise had approximately \$11.7bn of client funds under management including six New York Stock Exchange listed closed-end funds.

EGL's senior portfolio manager is Jean-Hugues de Lamaze. He has worked for Tortoise Advisors UK Limited since 2008 and has managed both EGL and its predecessor, Ecofin Water & Power Opportunities (EWPO) since March 2016. Prior to joining

Tortoise Advisors UK Limited, Jean-Hugues co-founded UV Capital LLP and served as its chief investment officer. Previously, he oversaw the Goldman Sachs European Utilities research team and prior to that he was a senior European analyst and head of French Research & Strategy at Credit Suisse First Boston.

Jean-Hugues’s professional career began at Enskilda Securities. He is a CFAF-certified analyst and a member of the French Financial Analysts Society SFAF. Jean-Hugues completed the INSEAD International Executive Programme, graduated from the Paris-based business school Institut Supérieur de Gestion and earned a LLB in Business Law from Paris II-Assas University. He was voted Top 10 Buy-Side Individual – All Sectors and Top 3 in the Utilities category in the 2018 Extel survey.

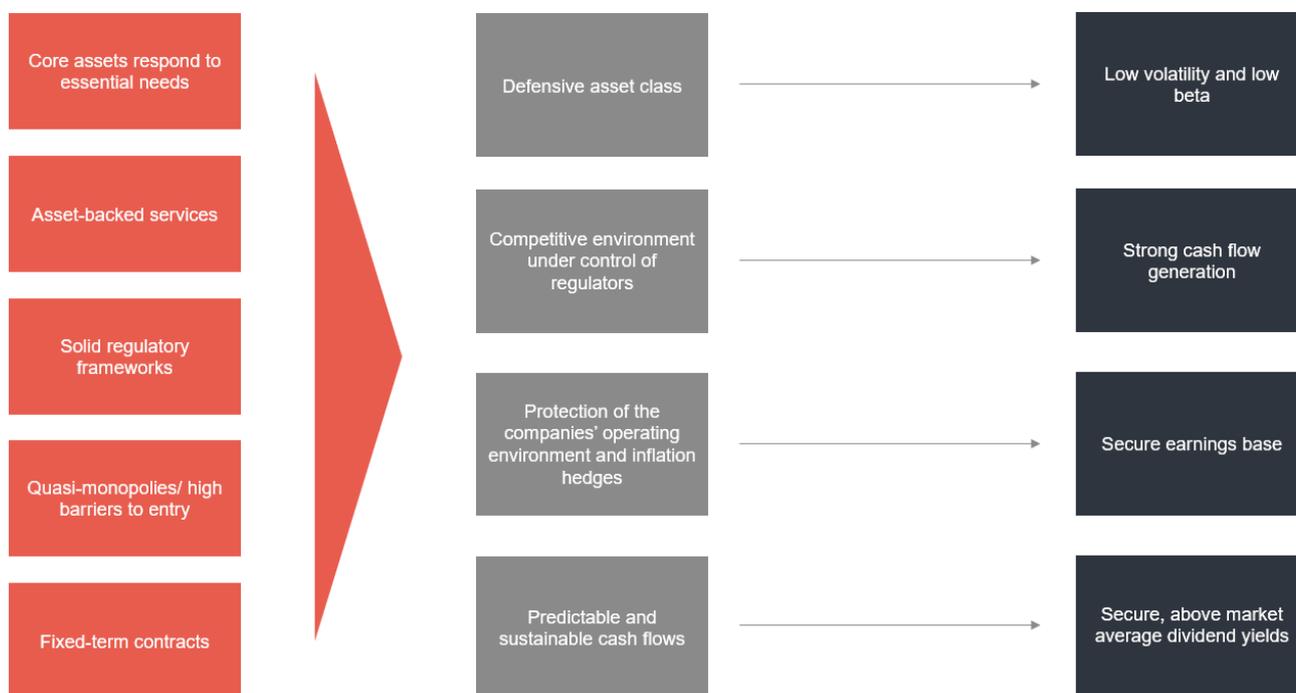
Well-resourced team

Jean-Hugues leads a team of six investment professionals in London and can draw on Tortoise’s extensive resources in Kansas, which includes three individuals dedicated to the listed infrastructure and energy evolution strategy.

The attractions of listed infrastructure

The manager believes that the economic infrastructure and utilities sectors have a number of unique attributes that make them attractive to investors as is illustrated in Figure 24.

Figure 24: Characteristics of the economic infrastructure and utilities sectors

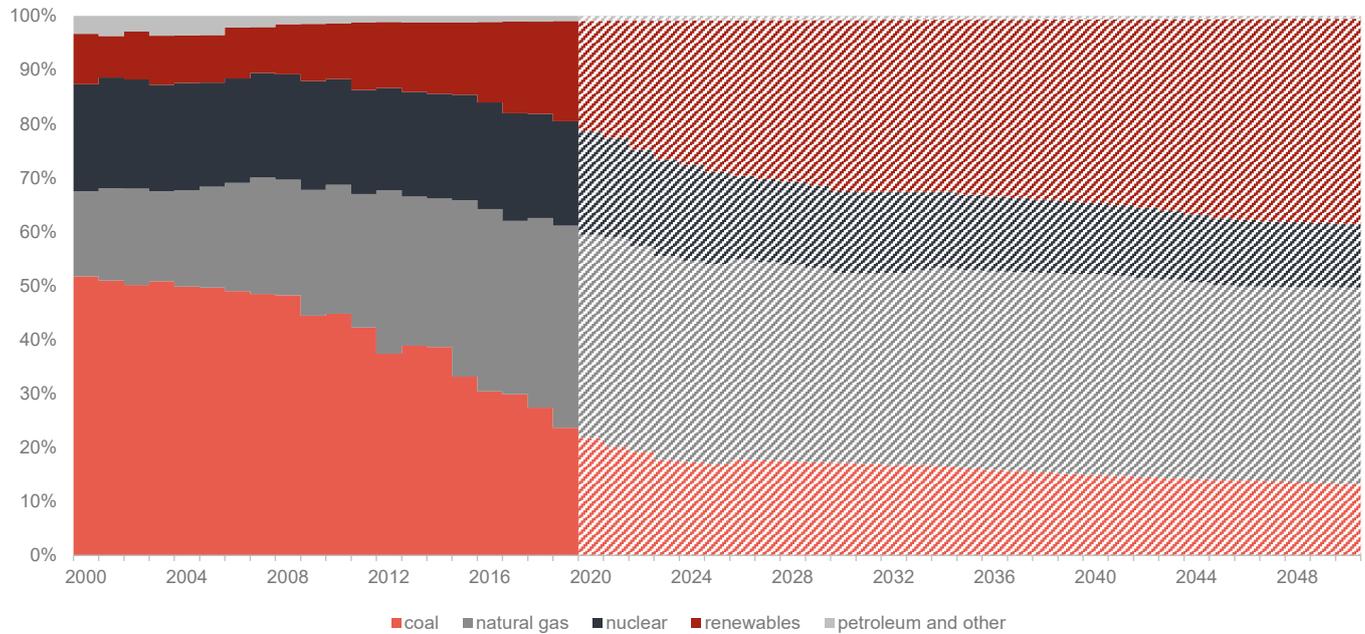


Source: Morningstar, Marten & Co.

Considerable investment is needed in the sector, both to support new renewable technologies and to make historic infrastructure safe. The sums involved are vast – measured in trillions of dollars per year.

The pace of change in the energy generation sector is illustrated by this forecast from the US Energy Information Administration, which shows the historic and predicted generation mix for the US from 2000 to 2050. The doubling in the share of renewables generation between 2019 and 2050, represents significant growth and investment. Yet these figures, and the persistence of coal in the mix, are said by many to represent a significant underestimate of the likely shift away from fossil fuels.

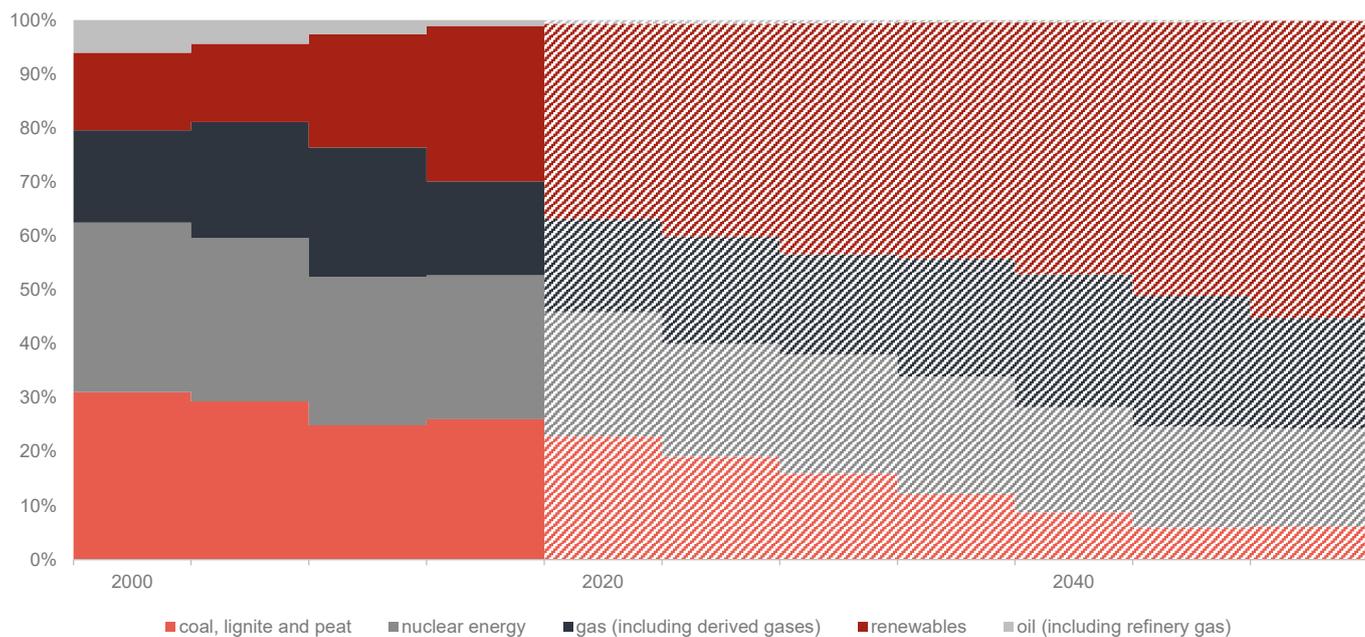
Figure 25: US generation mix 2000 to 2050



Source: US Energy Information Administration

Contrast the US picture with a similar analysis for the EU, which is shown in Figure 26.

Figure 26: EU generation mix 2000 to 2050



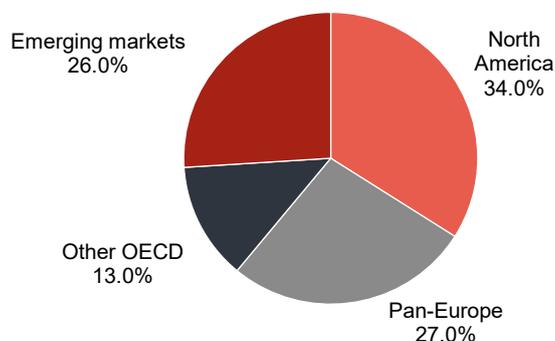
Source: European Commission, EU Reference scenario 2016

Exploiting the shift to renewables is an important theme within EGL’s portfolio. At the end of March 2020, just 10.5% of the electricity produced by the generation companies in EGL’s portfolio was coal-fired (versus 18.2% for the companies in MSCI World Utilities Index) and 27.1% was coming from renewables (20.0%). In terms of CO₂ emissions, EGL’s electricity generators’ emissions were 35% less than the MSCI World Utilities Index per \$1 invested.

Investment approach

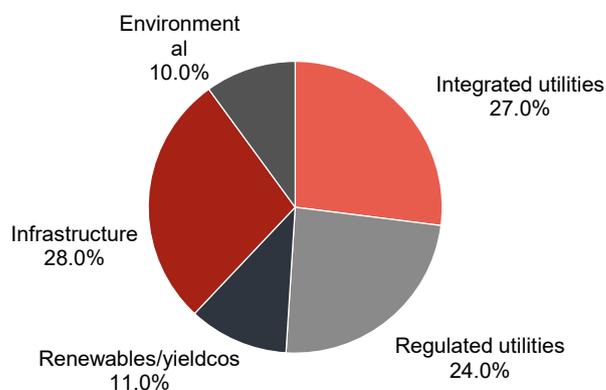
There are 374 companies classified as listed infrastructure that have a market cap greater than \$500m and average daily value traded greater than \$1m. Companies that do not meet these thresholds would not normally be considered for inclusion within EGL’s portfolio.

Figure 27: Analysis of EGL’s universe by region



Source: Tortoise Advisors UK

Figure 28: Analysis of EGL’s universe by sector



Source: Tortoise Advisors UK

Tortoise’s Ecofin Platform is a recognised specialist in the utilities and infrastructure space

Idea generation

Ideas are generated through a number of sources, both quantitative (numbers-based) and qualitative. Analysis of industry drivers and subsector trends direct the manager and analysts’ research effort, informing them on where to look for potential opportunities.

Further to this, Tortoise’s Ecofin Platform (formerly Ecofin Limited) is a recognised specialist in the utilities and infrastructure space and, because of its strong reputation, management teams of investee or potential investee companies are keen to meet the Ecofin team. EGL’s manager says that this supports idea generation and, through its superior access to management teams, Ecofin is able to undertake superior analysis and gain stronger insight than a non-specialist manager might be able to achieve.

Analysis

- Tortoise’s Ecofin Platform does not rely on sell-side (broker’s) analysts’ estimates and, instead, conducts its own in-house research and builds its own proprietary models. This allows it to identify situations where it has a different view to that of the market and where there may be a potential opportunity. A wide range of valuation metrics are used to make assessments of the risk/reward characteristics of potential investments. The choice of metrics reflects the needs of the various sub-sectors. The managers use what they describe as a ‘multi-angle valuation

approach’ to build confidence in their estimates. Figure 29 illustrates the key valuation metrics used in the main subsectors in which EGL invests.

- Regulatory asset base (RAB) – Regulatory formula is used to derive future earnings. The manager assesses the premium/discount, to the RAB valuation, at which a company is trading.
- Discounted cash flow (DCF) is used in situations where a business generates visible and forecastable cash flow streams.
- Sum of the parts (SOTP) is used when a business has multiple divisions. It is used to measure hidden value and to assess the potential for value accretive disposals.
- Valuation multiples (Multiples) are used for more cyclical stocks. The manager looks to identify earnings and cash flow momentum and so focuses on forward looking metrics. The price-earnings ratio (P/E), cashflow per share and EV/EBITDA are all key.

Figure 29: Key valuation metrics by sector

Pure regulated utilities	Environment	Energy	Transportation	Renewable energy developers	EPC Contractor
RAB	Multiples	SOTP	SOTP	Multiples	Multiples
DCF	DCF	DCF	DCF	DCF	SOTP
		Multiples			

Source: Ecofin Limited

Catalysts are key to investment decisions

Having identified a difference in its valuation of a stock versus the market, the manager then looks to identify suitable catalysts for the market to reshape its expectations about the stock. The manager says this is a key part of the investment process. The team may be able to identify a valuation anomaly, but this is of limited use if there is no opportunity to monetise the differential. Ideas are challenged amongst the investment team to ensure they have high conviction.

Portfolio construction

EGL maintains a diversified portfolio of between 40 and 60 holdings. Position sizes will typically range between 1.25% and 5.0% and are determined by the manager’s assessment of risk versus reward. A position could be outside these bounds where, for example, the manager is working to increase or reduce a holding or has a particularly strong view. However, the manager is disciplined in trimming holdings as they rise (although the formal limit is 15% of NAV, the manager says that 8% is his limit as he wants to avoid a situation where one position dominates the portfolio). The manager expects portfolio turnover per annum to be in the range of 40 – 60%.

EGL’s manager is agnostic on the split between utilities and infrastructure

When constructing the portfolio, no consideration is given to the split between utilities and infrastructure – the manager is looking for the best opportunities at any given time, but likes to maintain a balance between regulated and unregulated exposures. The portfolio is constructed to have what the manager describes as ‘defensive growth’ characteristics. EGL’s holdings currently have betas in the range of 0.5 (e.g. UK regulated utilities) to 1.2 (e.g. renewable energy companies) with an average of 0.4 – 0.6.

Analysis by the risk management team, discussed below, also influences portfolio construction.

■ Top-down overlay

Top down macroeconomic analysis informs the shape of EGL's portfolio in terms of geographic and sectoral positioning. Consideration is given to:

- Differing regulatory regimes and trends in legislation
- Government energy policies
- Demand growth
- Energy commodity prices
- Industry capex trends
- Credit market conditions and ease of access
- Interest rates.

■ Risk management

The risk team works closely with the portfolio manager to assist in investment decisions. It has automated in-house tools that provide real-time risk monitoring and details of exposures. The team monitors hard risk limits, guidelines and typical ranges, and uses a traffic light system to indicate which limits are coming under pressure. Where a position moves to 'orange', the risk management team will work with Jean-Hugues to move the position back to green. Key metrics for the traffic light system are portfolio beta, volatility, dividend yield and liquidity.

The risk team also analyses potential biases within the portfolio (geography, sector, market cap, momentum and valuations) and exposures to key risk factors (e.g. correlations to energy, interest rates etc.); conducts scenario analysis; and stress-tests the portfolio.

■ Investment restrictions

It is expected that EGL will primarily invest in the UK, Continental Europe, the US, Canada and other OECD countries. However, its articles of association state that EGL can invest up to 10% of its portfolio in non-OECD countries. The company is permitted to invest up to 10% of its assets in debt securities and a significant portion may be comprised of cash from time to time.

EGL is also permitted to invest up to 15% of its portfolio in other collective investment schemes, including UK investment companies, but it is not permitted to invest in vehicles that are also managed by its own investment manager. No single position can exceed 15% of the portfolio, at the time of investment, although the manager takes a more conservative approach, limiting investments to a maximum of 8% of NAV.

EGL does not invest in unquoted equities. Furthermore, it does not invest in unlisted securities save for certain bond or derivative instruments which are typically not listed.

EGL does not invest in telecommunications companies, companies which own or operate social infrastructure assets funded by the public sector (for example schools, hospitals or prisons), or early-stage listed companies which involve significant technological or business risk.

Although not a formal requirement, all of EGL's holdings pay a yield (currently at least 2%). EGL's manager say that non-yielding companies do not typically meet their investment requirements.

EGL is permitted to use currency hedging instruments, but usually its portfolio is unhedged.

Focus on stocks with above-average dividend growth

All of EGL's holdings pay a yield

The manager invests in companies that he expects to exhibit strong dividend growth characteristics.

Previous publications

Readers interested in further information about EGL may wish to read our previous notes (details are provided in Figure 30 below). You can read the notes by clicking on them in Figure 30 or by visiting our website.

Figure 30: QuotedData's previously published notes on EGL

Title	Note type	Date
Structural growth, low volatility and high income	Initiation	23 May 2017
Delivering the goods	Update	9 November 2017
On the contrary...	Update	29 March 2018
Staying nimble	Annual overview	15 October 2018
Unrecognised outperformance	Update	11 April 2019
Compelling three-year track record	Update	17 October 2019

Source: Marten & Co.

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