# Ecofin Global Utilities and Infrastructure Trust

Investment companies | Annual Overview | 23 January 2024

## Strong outlook as macro gloom lifts

Over the past 12 months, Ecofin Global Utilities and Infrastructure (EGL), along with the broader utilities and infrastructure sector, appears to have been at the mercy of broader macro-economic conditions. However, the managers note that its recent performance in no way diminishes the secular opportunity that exists for the fund, which, they believe should become more apparent as interest rates retreat from their highs. The company has exposure to a suite of investments that the managers believe stand to benefit from an ever-growing list of tailwinds as global decarbonisation and electrification trends gather momentum. They also note that earnings growth within the portfolio has remained strong, while indiscriminate selling has driven some valuations down to historically low levels, providing what they believe to be an incredibly attractive opportunity for long-term investors.

### 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 4% a year on its net assets, paid quarterly, and can use gearing (borrowing) and distributable reserves to achieve this.

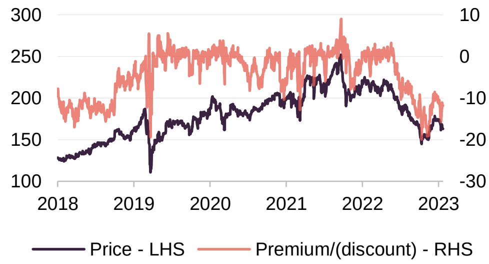
| Year ended | Share price TR (%) | NAV total return (%) | MSCI World Utilities TR (%) | S&P Global Infra TR (%) | MSCI World TR (%) |
|---|---|---|---|---|---|
| 31/12/2019 | 31.6 | 24.8 | 17.8 | 20.9 | 23.4 |
| 31/12/2020 | 20.8 | 16.3 | 1.5 | (9.4) | 12.9 |
| 31/12/2021 | 9.5 | 18.1 | 10.9 | 12.0 | 24.1 |
| 31/12/2022 | 15.4 | 6.5 | 8.1 | 12.2 | (7.7) |
| 31/12/2023 | (18.7) | (7.8) | (6.1) | (0.6) | 17.3 |

Source: Morningstar, Marten & Co

| | |
|---|---|
| Sector | Infrastructure securities |
| Ticker | EGL LN |
| Base currency | GBP |
| Price | 163.0p |
| NAV | 185.08p |
| Premium/(discount) | (11.66%) |
| Yield | 5.03% |

### Share price and premium/(discount)

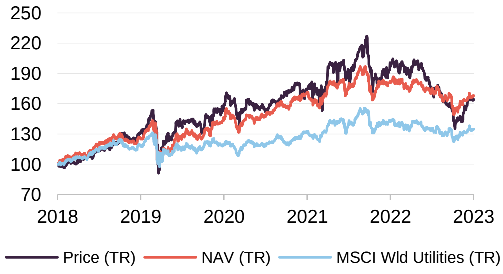
Time period 31/12/2018 to 21/01/2024




Source: Morningstar, Marten & Co

### Performance over five years

Time period 31/12/2018 to 31/12/2023




Source: Morningstar, Marten & Co

# Contents


| | |
|---|---|
| **Fund Profile** | **3** |
| No formal benchmark | 3 |
| **Market backdrop – all about rates** | **4** |
| **Annual report notes portfolio's underlying strength** | **4** |
| **Valuations to the fore** | **5** |
| **Asset allocation** | **8** |
| Top 10 holdings | 10 |
| Portfolio activity and new holdings | 12 |
| **Performance** | **15** |
| **Premium/(discount)** | **16** |
| **Dividend** | **17** |
| **Fees and costs** | **18** |
| **Capital structure** | **18** |
| Diversified share register | 18 |
| Gearing | 19 |
| Unlimited life with five-yearly continuation votes | 19 |
| Financial calendar | 19 |
| **Board** | **20** |
| **Previous publications** | **21** |


| | |
|---|---|
| Domicile | United Kingdom |
| Inception date | 26 September 2016 |
| Manager | Jean-Hugues de Lamaze |
| Market cap | 187.50m |
| Shares outstanding (exc. treasury shares) | 115.16m |
| Daily vol. (1-yr. avg.) | 246,102 shares |
| Net gearing | 7.7% |

Click for our most recent note

Click for an updated EGL factsheet

Click for EGL's peer group analysis


## Analysts

**Andrew Courtney**
ac@quoteddata.com

**James Carthew**
jc@quoteddata.com


Click to provide feedback to the company

Click if you are interested in meeting EGL's managers

## Fund Profile

Further information regarding EGL can be found on the manager's website:
uk.ecofininvest.com/funds/ecofin-global-utilities-and-infrastructure-trust-plc

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.

The managers note that 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 what they describe as '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, 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, the MSCI World Utilities Index, and the S&P Global Infrastructure Index are the global indices deemed the most appropriate by the manager. The company also supplies data for the MSCI World Index and the All-Share Index in its own literature for general interest. The MSCI World Utilities may be the most relevant – although it should be noted that this index has a strong bias towards US companies and excludes transportation services and some environmental services which EGL may be invested in.

## Market backdrop – all about rates

> 10-year Treasury yields briefly breached 5% for the first time since the collapse of Lehman Brothers in 2007

In our last note we highlighted the possible impact of rising interest rates on EGL, and the repricing of global risk assets more broadly. These factors appear to have predominated throughout 2023, with the managers noting that yields at the long end of the US Treasury curve gathered steam in response to uncontrolled inflation and a resilient US labour market. 10-year Treasury yields briefly breached 5% for the first time since the collapse of Lehman Brothers in 2007, before what the managers described as more moderate inflation and a technical change to the treasury refunding programme sparked a dramatic repricing in the final quarter of the year. This appeared to be the trigger for an equity market recovery as investors began to eye an end to the global tightening cycle. Sectors of the market weighed down by rising discount rates and unwieldly financing costs appeared to be particularly receptive as yields continued their rapid retracement towards 4% and below.

The ebbs and flows of these dynamics have been exhaustively documented over the past six months, and while there is no guarantee that the bond rally will continue, (notably, yields have risen steadily off their year-end lows over the course of January), the managers believe that the dramatic fall in inflation across the developed world over the last few months suggests that interest rates may have peaked for this cycle.

The managers believe that if rates are now on the way down, or have at least become less volatile, it removes a key pillar of uncertainty for capital intensive sectors such as infrastructure and utilities. They add that these have been hit hard by what in many cases has been indiscriminate selling, and believe that a pause should allow the market to take stock of companies which are now drastically oversold. The managers feel that this is the case for EGL's portfolio. Despite its discount falling to a trough of almost 20%, they highlight that the company has maintained what they view as impressive fundamentals and remains well positioned to take advantage of an ever-growing suite of tailwinds.

## Annual report notes portfolio's underlying strength

EGL's annual report was published on 18 December 2023. The managers note that the return for the period ended 30 September 2023 highlights the challenges faced by the company throughout the year with a NAV total return of -8.6% and a share price total return of -21.9%, adding that roughly half of the fall in NAV was attributable to sterling strength which rose 9% against the USD. This is in comparison to the MSCI World Utilities Index total return of -8.2% in sterling terms. Meanwhile, global equities as measured by the MSCI World Index rose 11.8%, which the managers point out was driven by a small number of large-cap tech stocks, opening a considerable gap in performance. The second half of the financial year was particularly challenging, with EGL's NAV falling 11.9%, which the managers believe reflects the rapid rise in global bond yields discussed above.

The managers note that the portfolio showed the virtues of diversification over the course of the financial year as its pan-European integrated utility positions performed well, as did transportation and environmental services exposure, benefiting from what the managers describe as strong trading revenues, sound pricing models, and contractual inflation hedges. However, they continue, its North American exposure suffered from apparent issues around cost inflation, supply chains, and permit delays which appeared to compound broader concerns surrounding rising discount rates. They also add that some stock-specific factors also weighed heavily on returns. These are discussed in more detail in the portfolio activity section on page 12.

While headline performance for the year was disappointing, the portfolio continued to deliver solid investment income growth with net revenue return per share increasing by 9.2%.

Although the managers note that headline performance for the year was disappointing, they point out that the portfolio delivered solid investment income growth, with net revenue return per share increasing by 9.2%, even as the cost of borrowing rose. As of 30 September 2023, the portfolio yielded 5.1% (5.6% including the leverage).

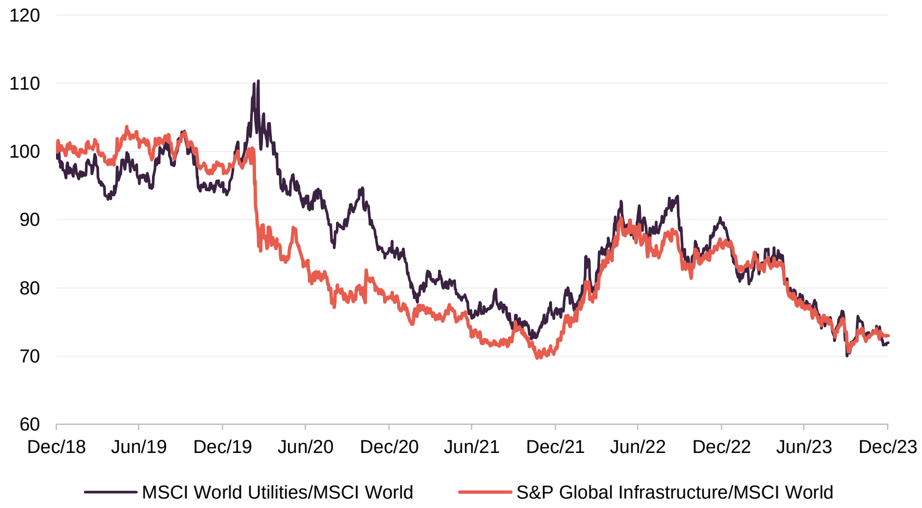
Despite the challenges, the managers believe the outlook for the company remains attractive, particularly when accounting for current discounts, as decarbonisation and electrification trends continue to gather momentum. They add that a degree of indiscriminate selling across the infrastructure and utilities sector also opens up opportunities for Jean-Hugues and his team, who have aimed to position the portfolio for future growth.

## Valuations to the fore

Readers may wish to refer to our earlier notes, a list of which is provided on page 21.

To recap, although EGL's NAV and share price have increased by 8.8% p.a. and 10.7% p.a. since inception (to 31 December 2023), globally, the utilities and infrastructure sectors have been underperforming wider market indices for some time now. The managers note that these sectors have been weighed down by rising costs of capital, which lower the present value of long-term cash flows and also increase the costs of financing growth. In some cases (mainly outside of Europe), the managers also point out that a lack of cost hedging and inflation indexation has weighed on returns.

**Figure 1: Utilities and infrastructure performance relative to global equities (MSCI indices)**

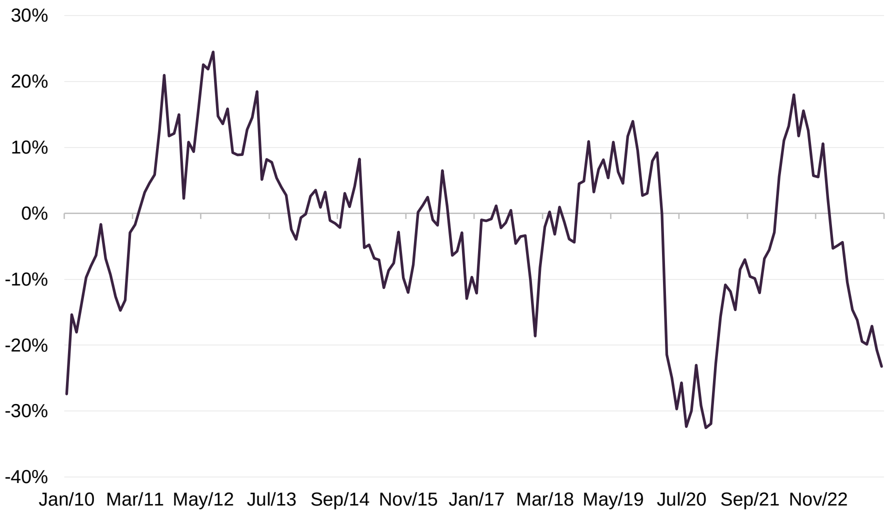



**Source:** Morningstar, Marten & Co

The current sell-off appears to be far detached from the fundamental realities.

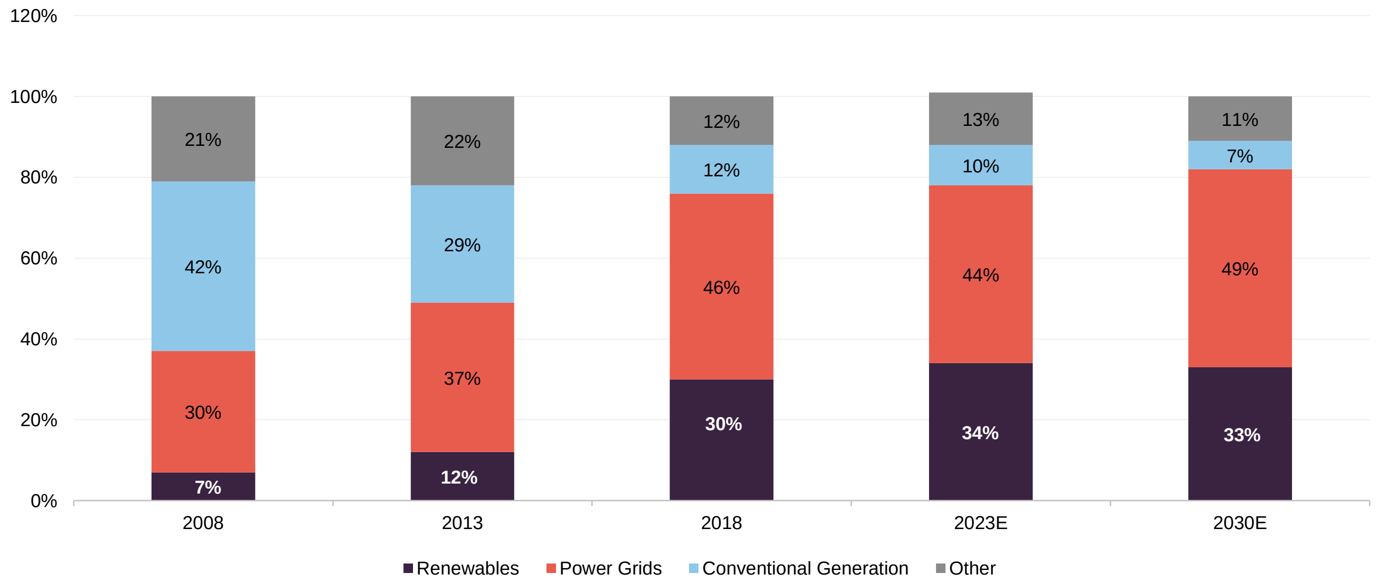
In the US, only financials trade on a cheaper P/E multiple, at the sector level, and although returns appear to have held up better in Europe and the UK, they still trade at a discount to their own historical averages. Certainly, the mangers point out that a degree of re-pricing is expected given the broad impacts of one of the fastest-tightening cycles in history, and the traditional perception of utilities as a bond proxy. However, they believe the current sell-off appears to be far detached from the fundamental realities when the earnings resilience of many of these companies is taken into consideration.

**Figure 2: US utilities P/E ratio relative to US equity P/E ratio**




**Source:** Morningstar, Marten & Co

**Figure 3: Adapting utilities: EBITDA split by activity for European Utilities**




**Source:** Ecofin Global Utilities and Infrastructure Trust

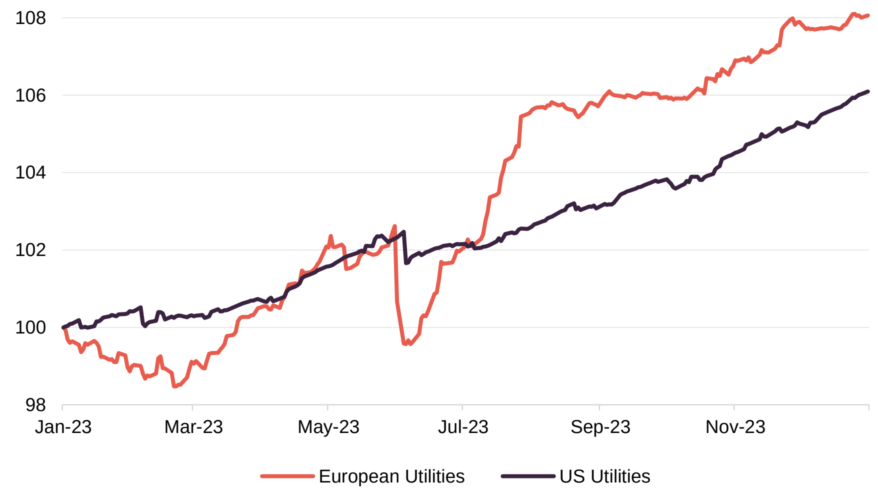
The UK generates less than 1% of its power from coal compared to 48% back in 2008.

As the managers observe, the business models of modern utilities appear to be rapidly adapting to a world which increasingly prioritises decarbonisation, and now seem to bear little resemblance to the lumbering oil and gas utilities of old, both in terms of revenue composition and asset mix.

As an example, today, the UK generates less than 1% of its power from coal compared to 48% back in 2008 and, as the managers point out, this increasing focus on renewables means that companies benefit from a high portion of regulated and/or contracted cashflows, which appear to drastically de-risk portfolios through highly visible and increasingly stable earnings. Often, the managers note, these are also indirectly linked to inflation, due to what they say are positive links to commodity prices, which offer valuable diversification and an upward skew to returns in periods of elevated volatility and inflation.

The managers note that while capital was flowing out of the utilities and infrastructure sectors into areas such as money market funds and more defensive positioning overall in 2023, this has happened against a backdrop of rising earnings for many of the companies that EGL invests in.

**Figure 4: Blended forward earnings per share for utility indices**




**Source:** EGL, Marten & Co

Engie reported forward selling prices for the next three years at prices between €100/MWh (2023) and €152/MWh (2025).

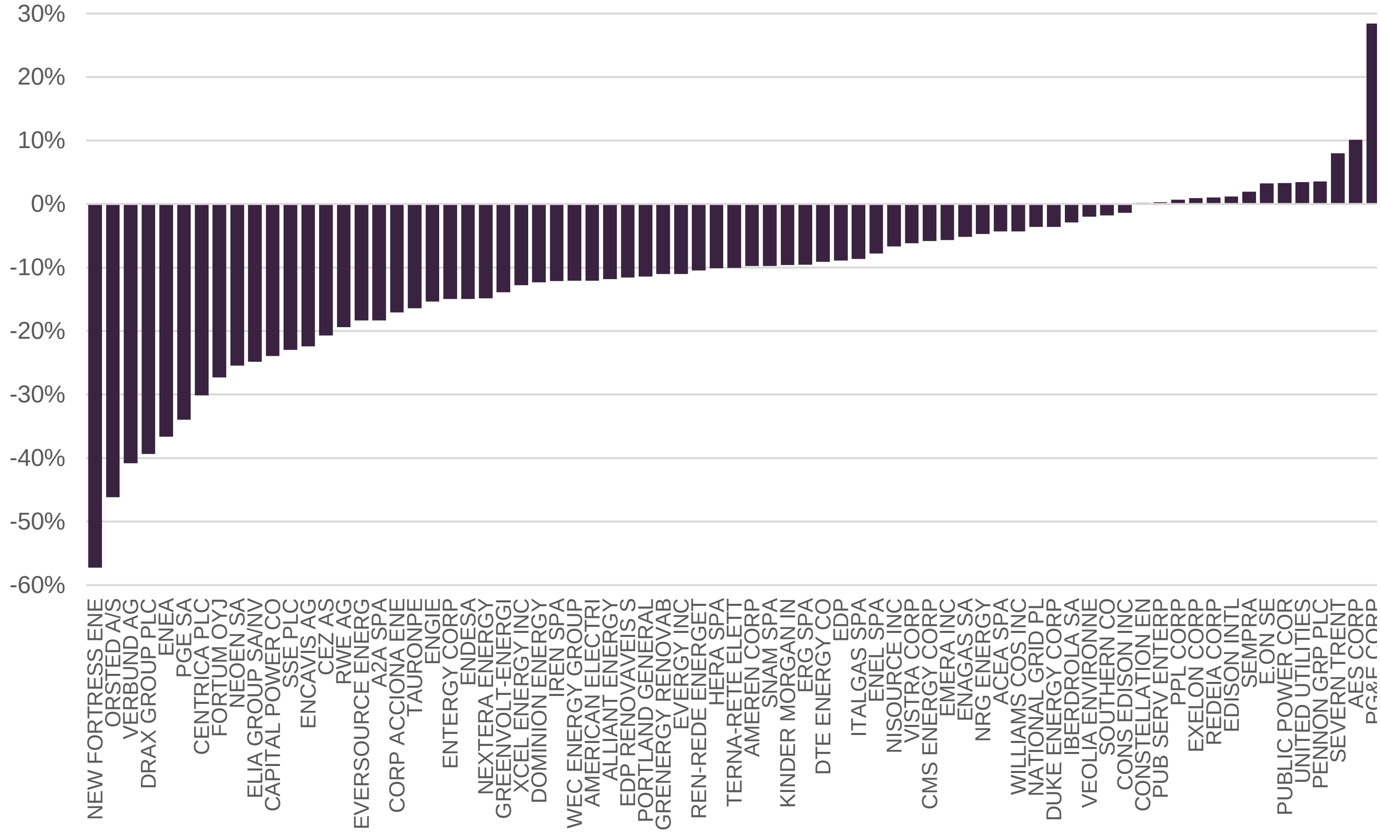
In addition to broader inflation uplifts, the managers note that contracted power prices for new projects appear to be adjusting upward even as the dramatic power price volatility seen throughout 2022 seems to have moderated, The managers note that many companies have been able to leverage this, forward selling power at prices which are significantly higher than those embedded in analysts' current forecasts, which they say is dramatically increasing both the visibility and absolute level of earnings over the next few years. For example, EGL portfolio company, Engie, recently reported forward selling prices for a large proportion of its volumes for the next three years at prices between €100/MWh (2023) and €152/MWh (2025). These significantly exceed prices used in analysts' earnings forecasts, which sit closer to the region of €60/MWh.

Such opportunity may be temporary (European power prices have been weak recently, notably due to declining natural gas prices), but no doubt the sector's majors will have secured a non-negligible proportion of their medium-term profits.

### Looking ahead

The managers highlight that ongoing earnings growth combined with the dramatic rotation out of the utilities and infrastructure sectors has resulted in a substantial de-rating of the EGL portfolio. Figure 5 below illustrates valuations for utilities in major markets relative to their 5-year average. The managers add that this has occurred at a time when the structural tailwinds driving utilities have arguably never been stronger, which they believe provides an attractive entry point for investors looking for reliable, long-term exposure to the energy transition and the broader infrastructure sector.

**Figure 5: Current one-year forward EV/EBITDA versus five-year average**




**Source:** Bloomberg, via Ecofin

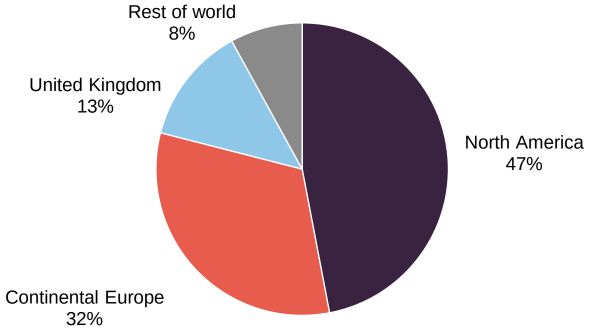
## Asset allocation

Since we last published, the managers note that there have been just modest changes to EGL's geographic and sector allocations, however they say that these mask a considerable amount of activity within the portfolio. Exposure to continental Europe increased thanks to what they describe as solid outperformance of the portfolio's pan-European utilities, which appeared to benefit from retail power markets and transmission and distribution businesses where returns are sustained by regulators. This increase occurred even though the manager was taking profits in several pan-European holdings during the period which, they note, had performed well on an absolute and/or relative basis, to allocate additional funds to US utilities which, as a sector, had underperformed significantly.

The manager also highlighted that share prices in EGL's North American portfolio, especially the renewables developers, were weighed down by rising interest rates, supply chain disruptions, and permit delays which, they said, damaged sentiment much more than earnings in most cases. It appeared that these factors may have weighed on some of the portfolio's largest holdings, as we discuss in detail on page 14.

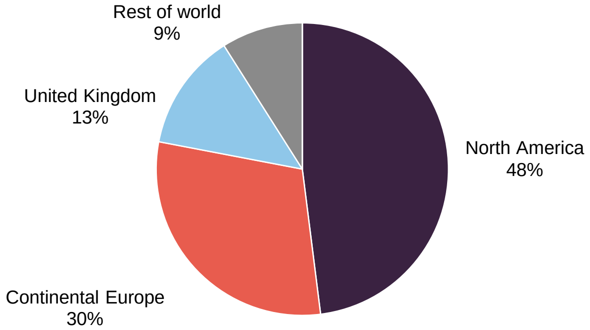
Allocations to the rest of the world (other OECD plus emerging markets, i.e. China currently) also fell slightly, due predominantly to what the managers describe as underperformance of the portfolio's small Chinese investments which include wind, solar and water supply companies.

**Figure 6: Geographic allocation as at 31 December 2023**



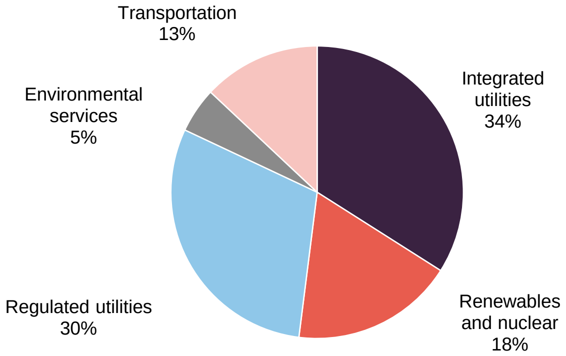

**Source:** Ecofin Global Utilities and Infrastructure Trust

**Figure 7: Geographic allocation as at 31 July 2023**



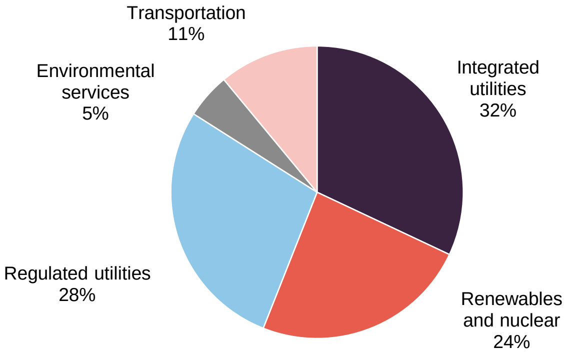

**Source:** Ecofin Global Utilities and Infrastructure Trust

**Figure 8: Sectoral allocation as at 31 December 2023**




**Source:** Ecofin Global Utilities and Infrastructure Trust

**Figure 9: Sectoral allocation as at 31 July 2023**




**Source:** Ecofin Global Utilities and Infrastructure Trust

Within the company's sectoral allocations, the combined renewables and nuclear exposure fell. However, at the underlying level, there was a considerable dispersion in returns and Constellation was among the best performers in the portfolio which, the managers note, is thanks largely to their nuclear assets.

## Top 10 holdings

Since we last published, RWE, Edison, and Xcel Energy have moved into the list of EGL's top 10 largest holdings, with DTE, DRAX, and Exelon dropping out. Whilst no longer in the top 10, each remain in the portfolio. The managers note that exposure to DTE fell due to some profit taking, while Exelon was reduced further due to what they describe as unusually harsh rate case decisions in Illinois, with low electric ROE's and the rejection of the company's grid investment plans there. DRAX appeared to suffer from a lack of clarity on subsidies and approvals for its BECCS project which the managers say led to a period of underperformance.

Readers interested in other names in the top 10 should see our previous notes (see page 22 for a list of these).

### Figure 10: Top 10 holdings as at 31 December 2023

| Holding | Sector | Country | Allocation 31 December 2023 (%) | Allocation 30 June 2023 (%) | Percentage point change |
|---|---|---|---|---|---|
| NextEra Energy | Renewable energy | US | 5.9 | 6.5 | (0.6) |
| American Electric Power | Integrated utilities | US | 4.7 | 4.1 | 0.6 |
| National Grid | Networks | UK | 4.5 | 4.1 | 0.4 |
| Enel | Integrated utilities | Italy | 4.4 | 3.7 | 0.7 |
| SSE | Integrated utilities | UK | 4.1 | 4.3 | (0.2) |
| RWE | Integrated utilities | Germany | 4.0 | 3.0 | 1 |
| ENAV | Transportation | Italy | 3.6 | 1.5 | 2.1 |
| Xcel Energy | Integrated utilities | US | 3.3 | 3.0 | 0.3 |
| AES | Renewable energy | US | 3.3 | 3.4 | (0.1) |
| Edison International | Integrated utilities | US | 3.3 | 2.8 | 0.5 |
| Total of top 10 | | | 41.1 | 36.4 | |

Source: Ecofin Global Utilities and Infrastructure Trust, Marten & Co

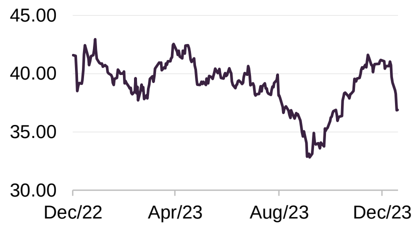
### RWE

Earlier in the year, Jean-Hugues had reduced EGL's position in RWE (RWE.com) as he felt that the company could suffer from its large exposure to power generation. As he notes, this turned out to be prescient as the stock fell during the month of September before recovering over the next few months. Despite taking some profits, RWE remained a high conviction pick with the managers highlighting what they describe as a dramatic operational transition which has seen it become one of the world's largest renewable energy producers. Notably, the September fall in RWE stock actually corresponded with what the managers saw as a considerable rise in the company's earnings outlook, and they took the period of share price weakness as an opportunity to add exposure once more.

The managers also note that the company continues to increase its scale, investing in its M&A pipeline and in March 2023, closed the $6.8bn acquisition of Consolidated Edison's clean energy business, doubling its presence in the US and making RWE the second largest solar owner-operator in North America.

Following its 2023 capital markets day in November, the company released a strategic update that included a fully funded investment plan worth €55bn that they believe will treble its installed capacity of renewables by 2030. In addition, the managers believe that the announcement of a targeted EBITDA CAGR of 14% through to 2030 highlights the potential upside of the company, which continues to trade at what they see as a very attractive valuation, well below peer group and broader market multiples.

**Figure 11: RWE (EUR)**

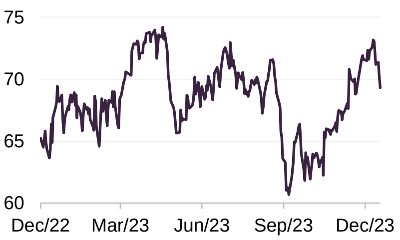



**Source:** Bloomberg

## Edison International

Edison (edison.com) was a name added to the portfolio in the summer which the managers say was to broaden the portfolio's US utility exposure. It was added to on perceived weakness following a drop it its share price earlier in the year.

**Figure 12: Edison (USD)**




**Source:** Bloomberg

The company is one of the largest pure play electric transmission and distribution providers in the US. Operating through its principal subsidiary, Southern California Edison (SCE), the managers describe it as a targeted play on California and its supposedly aggressive clean energy goals, with the managers highlighting the considerable investment required to upgrade its power grid to cope with the demands of the renewable transition. For example, Jean-Hugues notes that the company forecasts an 80% increase in electrical demand by 2045, due to 90% of vehicles and 95% of buildings going electric. To serve this load, Edison says the grid will need to expand to handle three times the clean energy flowing today, which they say, means new transmission and distribution grid projects will need to be added at four times and 10 times their historical rates, respectively.

Despite what the managers see as ongoing fundamental execution and rapidly accelerating thematic tailwinds, they also note that Edison has struggled over the last few years in part due to what they say is a continuing overhang of lawsuits initiated against SCE following the California wildfires, which remain unresolved. However, they believe that recent developments have been promising, particularly the announcement of a deadline for the completion of claims against SCE by February 2024.

Edison has also noted that it has made substantial progress in settling claims and moving toward recovering related costs. The managers also note that the company has also gone to great efforts to mitigate future wildfire related impacts through grid hardening and other programmes, which it claims will reduce its risk of losses from catastrophic wildfires by 85%.

With the pending resolution of legal challenges, and the threat of further impacts from wildfires greatly diminished, according to the company, the managers believe that there appears to be considerable upside for Edison which continues to trade at earnings and cashflow multiples below its peer group and its own historic averages. In addition, the managers continue, Edison remains positioned to benefit from the considerable investment associated with grid decarbonisation, particularly in

California, with estimates suggesting that around $30bn needs to be invested in the state's transmission system up to 2040 and a further $54bn in energy storage capacity. The managers say that his is expected to drive earnings growth from 2025 through to 2028 of around 5-7%, a figure which they believe is conservative given the scale of the development required.

## Portfolio activity and new holdings

Since our most recent note, the managers have made clear that they are carefully balancing their desire to capitalise on current depressed valuations with the rising cost of borrowing, which in some markets was north of 6%, compared to around 1% previously. As such, Jean-Hugues and the team have said they have maintained gearing at around 10% (or lower, at times) and have taken profits from several strong performers to fund acquisitions that they view as having a greater degree of risk-adjusted upside. Although they say that at the margins, trimming profits from winning positions is a slight departure from the traditional targeted, high-conviction approach, they believe it to be a sensible one given the increasingly attractive investment opportunities on offer. They also add that the dispersion of returns across the global infrastructure and renewables sectors highlight the benefits of EGL's broad investment remit, allowing them to take advantage of opportunities, such as excessive swings in sentiment, without restriction.

Transactions that returned a significant amount of cash back to the portfolio included a SPAC deal where the managers deemed the ultimate takeover target as being outside EGL's area of focus, and the takeover of TransAlta Renewables, which was bid for by its parent company. The position in Endesa was also sold outright.

These moves were offset by the addition of new holding, Vistra Energy, in November along with top-ups to what the managers say are existing high conviction holdings on the recent share price lows including: AEP, Southern, Ameren, Terna, E.ON, RWE, Edison International, EDP, Drax, Engie and Enel.

### Vistra Energy

Jean-Hugues and the team note that the new name, Vistra Energy (Vistra.com), is a targeted play on what they see as the undervaluation of US utilities as well as the growing opportunity in the Texas Energy market.

**Figure 13: Vistra Energy (USD)**


**Source:** Bloomberg

The managers note that the company maintains a well-diversified, integrated model with over 90% fully dispatchable generation (i.e., power supplied to the grid can be turned on or off as required), providing baseload power which they say is crucial for the successful development of broader renewable use. 46% of its generation capacity is located in Texas, which the managers say is an increasingly attractive destination for baseload generation as traditional thermal sources continue to be replaced by renewables, and the managers expect this to lead to structurally higher power prices going forward.

Fundamentally, the managers say that Vistra Energy boasts one of the strongest FCF yields in the sector, providing the foundation for what they say is its strong balance sheet and buyback program, which amounts to around 10% of its market cap. They also point out that relatively low gearing helps insulate the company from rising rates, as does an earnings outlook that continues to improve.

The managers note that the company has been actively transitioning its power generation profile over the last few years, with a particular focus on retail and, more recently, nuclear generation following the acquisition of Energy Harbor in March 2023. Capitalising on the Inflation Reduction Act's nuclear production tax credit, the US$3.43bn deal creates the second largest nuclear fleet in the US, greatly increasing Vistra's clean energy generation capability, while also adding to its growing energy storage portfolio. The managers say that the deal is particularly notable given that it reduces some of the overhang from Vistra's legacy fossil assets that they say have long been a concern for some analysts.

These factors may have contributed to the company's current valuation which remains well below wider sector averages. The managers believe that given the rapidly improving outlook and ongoing execution, this appears to be a very attractive opportunity.

## NextEra Energy

NextEra Energy (nexteraenergy.com) remains EGL's largest position, accounting for 5.7% of the fund as of 30 November 2023. It has long been a large position in the portfolio and has therefore been covered in our research on multiple occasions over the years. However, it may bear mention again, given its share price set back.

**Figure 14: NextEra Energy (USD)**


**Source:** Bloomberg

As the world's largest electric utility, and the largest generator of energy from wind and solar in the world, the managers note that NEE trades as a bellwether for the broader renewables sector, and as such, they say, was hit hard by the sudden steepening at the long end of the US treasury curve which we have discussed throughout this note.

Unfortunately, the managers continue, the negative impact on NEE was compounded by an announcement from one of its subsidiaries, NextEra Energy Partners (NEP). Following the shift in yields, according to the managers, NEP wrong-footed the market by significantly lowering its growth ambitions and halving its target dividend growth rate from 12-15% to 5-8% p.a. for the next few years (bringing its growth rate in line with peers) which they say was to eliminate the need to raise equity while reducing its reliance on debt. The managers say that this set off a very sharp slide in its shares and those of NEE, despite accounting for just a fraction of the parent company's market cap. They believe that the effect on NEE went well beyond the direct mechanical impact of the announcement, raising question marks around the company's financing and the sustainability of its growth in the current environment. For EGL, this episode removed about 2% from its NAV.

Crucially, the managers note that NEE proceeded to deliver an impressive third quarter update, reconfirming earnings guidance of 6-8% p.a. and dividend growth of 10% p.a. out to 2026. They say that this helped reassure the market of its growth trajectory, balance sheet, and the advantages of scale for renewables development, although the company still remains down 29.2% over the past year.

**Figure 15: Constellation (USD)**


**Source:** Bloomberg

## Constellation Energy

A recent top 10 holding until the team took profits in December, Constellation Energy (constellation.com) owed its ascent in EGL's portfolio rankings to an impressive return of 46% over 2023, making it one of the top performers in the portfolio. Founded early in 2022 after a spin-off from Exelon, the company has the largest clean energy fleet in the US including nuclear, solar, wind, and hydro, producing about 10% of the country's carbon-free generation. CEG also owns the largest nuclear fleet in the US and the managers highlight that they are investing heavily in the expansion of this capability, recently announcing the acquisition of 44% of the South Texas Project, expanding their annual nuclear production to approximately 180 TWh.

The managers say that on top of its existing balance sheet strength and impressive free cash flow growth, the company is constantly pushing the boundaries with considerable investments in clean hydrogen, nuclear energy, and other innovations which they say have the potential to lift earnings dramatically going forward. One such example they provide is its recent Carbon-Free Energy Matching strategy, which has seen contracts put in place with Commonwealth Edison and Microsoft. The managers explain that to date, many companies pursuing zero emissions still struggle to completely remove electricity from carbon-emitting power plants due to the volatility of renewable supply and demand. Utilising its diversified generation, supply management and data analytics capabilities, they say that CEG is able to bridge the gap between a company's real-time electricity demand and available carbon-free power sources, setting the standard for how companies across the U.S can achieve real emissions reductions. You can learn more about this process here. CEG also achieved what the managers describe as a recent milestone with the Department of Energy awarding a $1bn grant to the Midwest Hydrogen Hub, which will contribute to costs of CEG's LaSalle project, the world's largest nuclear-powered hydrogen production facility. The managers note that while still a developing resource, the technology has almost unlimited potential to revolutionise global energy use.

They believe that with secular tailwinds, including well-documented fiscal support from the Inflation Reduction Act, and a management team driving innovation, CEG sits at the forefront of the renewable transition. Whilst shares trade at a slight premium to its peers, the valuation remains below broader market averages and if growth accelerates it is possible that these multiples may fall further.

## Performance

### Figure 16: EGL's NAV total return relative to benchmark indices, over five years to 31 December 2023


**Source:** Morningstar, Marten & Co

EGL's long-term performance remains well ahead of both the wider utilities and infrastructure sectors, which the managers say highlights the benefits of its diversified portfolio and the ongoing execution of the fund.

### Figure 17: Cumulative total return performance over periods ending 31 December 2023

| | 3 months (%) | 6 months (%) | 1 year (%) | 3 years (%) | 5 years (%) | From launch[1] | Volatility[2] (%) |
|---|---|---|---|---|---|---|---|
| EGL NAV | 7.2 | (2.6) | (7.8) | 15.9 | 68.1 | 84.8 | 12.7 |
| EGL share price | 6.8 | (5.6) | (18.7) | 2.7 | 63.3 | 108.6 | 18.3 |
| MSCI World Utilities | 6.1 | 0.3 | (6.1) | 12.5 | 34.6 | 50.5 | 12.7 |
| S&P Global Infrastructure | 5.9 | 2.2 | (0.6) | 24.8 | 36.8 | 41.3 | 11.6 |
| MSCI World | 6.7 | 8.0 | 17.3 | 34.4 | 87.3 | 119.4 | 13.4 |
| MSCI UK | 2.2 | 5.6 | 6.6 | 37.8 | 39.3 | 47.9 | 12.7 |

**Source:** Morningstar, Marten & Co. Note 1) EGL was launched on 26 September 2016. Note 2) Volatility is the annualised standard deviation of daily returns over five years.

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

The managers point out that Figure 16 highlights the extent of the divergence that has opened up across global markets over the last year, with the returns of the MSCI World index well ahead of the other sectors shown in the chart, thanks, they say, to the AI bonanza which dragged global indices upward through 2023. They continue that over the past year, EGL has also suffered relative to its more direct peers due to stock specific events (such as the fall in NEE, covered on page 14 of this note), and a considerable drag from sterling strength. Still, even negative performance over the past 12 months, EGL's long-term outperformance remains intact, which, the managers believe, highlights the value the fund has provided over the years.

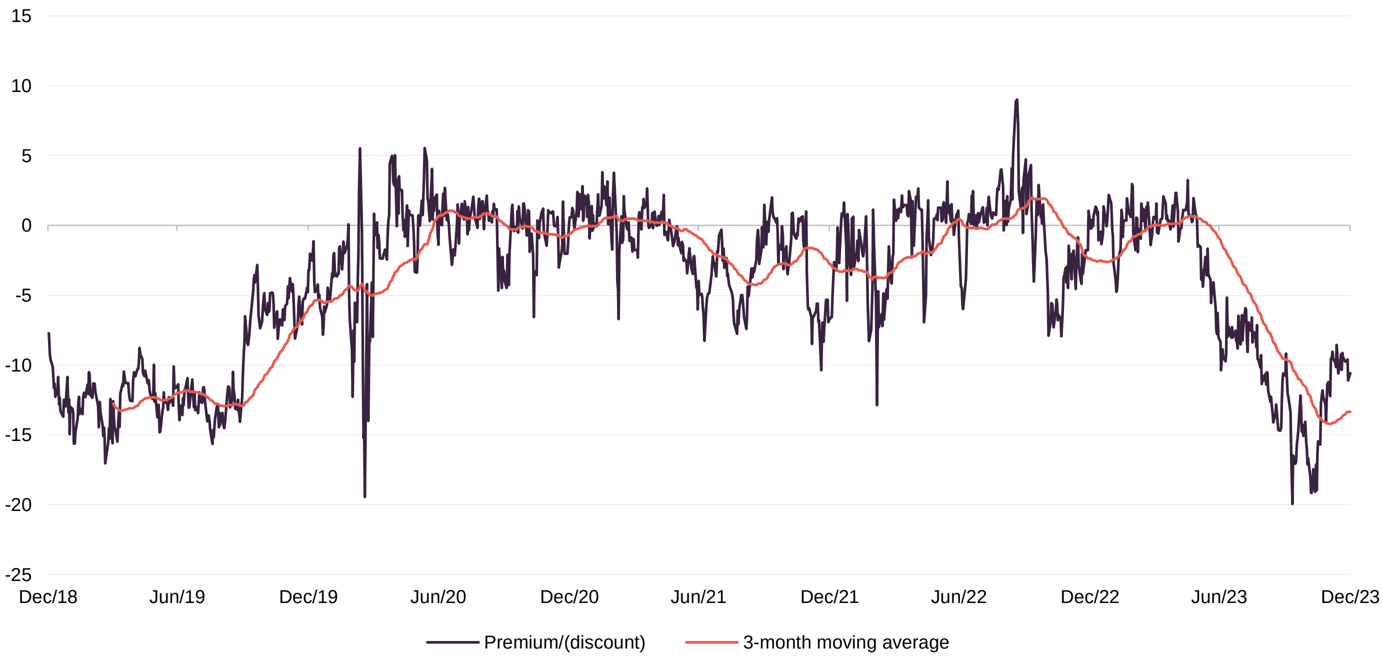
## Premium/(discount)

EGL has experienced a 23% swing in its discount over the past year.

Over the 12 months ended 31 December 2023, EGL's shares have traded between a 19.9% discount to NAV and a 3.2% premium. The average over that period was a 6% discount. As of publishing, EGL was trading at a 11.66% discount.

EGL has experienced a 23% swing in its discount over the past year, and until May 2023 often traded at a small premium to NAV (and the company was issuing shares). The managers suggest that this reflected both the company's strong track record and the opportunities that exist across its investment universe, particularly relating to the energy transition and the renewal of infrastructure. They continue that while interest rates have certainly generated headwinds for the sector, they believe that the secular themes driving returns remain as strong as ever, and in many cases have only accelerated as the urgency and required investment for alternative energy sources and sustainable infrastructure become even more clear.

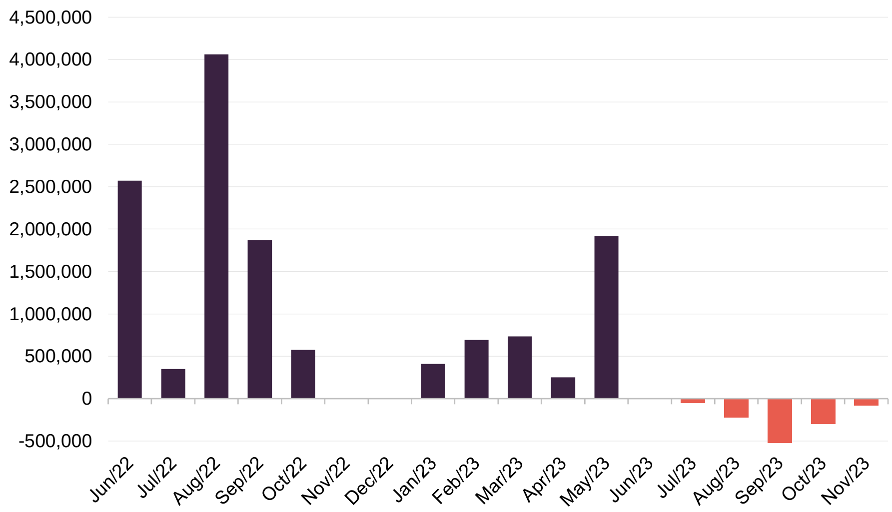
**Figure 18: EGL premium/(discount) over five years to end December 2023**




**Source:** Morningstar, Marten & Co

As Figure 18 highlights, EGL was steadily issuing shares over 2022 and the first part of 2023 with the company trading at a small premium. However, with the shares swinging to a discount, the board has authorised the repurchase of almost 1.5m shares since June 2023.

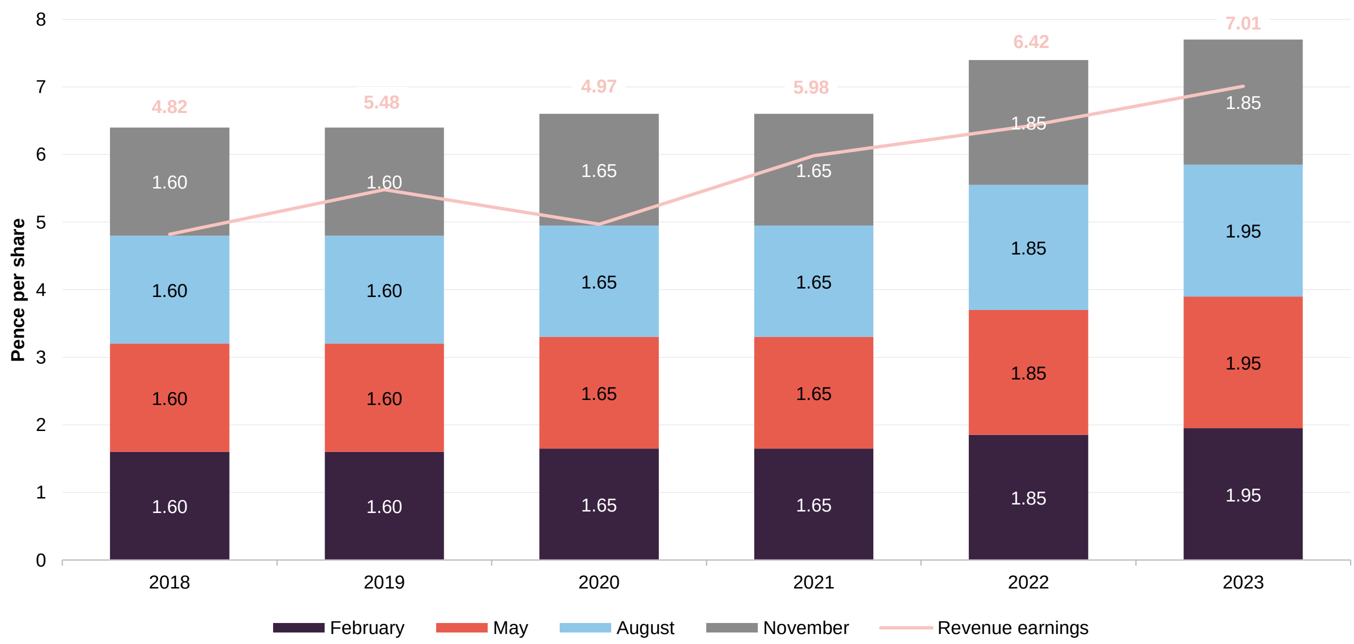
### Figure 19: EGL share buybacks and issuance




**Source:** Marten & Co

## Dividend

### Figure 20: EGL revenue income and dividend by financial year (ended 30 September)




**Source:** Ecofin Global Utilities and Infrastructure Trust

As Figure 20 shows, EGL has tended to pay an uncovered dividend in recent years, supplementing its net revenue with modest amounts from its distributable reserves. These reserves are substantial, amounting to £114m at the end of September 2023. Therefore, they believe, there is minimal likelihood that the board would feel it was unable to pay its target dividend, which they say, is evidenced by its actions in 2020 when COVID knocked companies' distributions.

They add that the ongoing growth of EGL's investment income supports this further, with revenue return per share increasing by 9.2% year-over. The managers also say that due to confidence in its growth prospects, the company also announced an increase in its quarterly dividend to 2.05p per share (8.20p per annum) with effect from the dividend to be paid in February 2024. At the current share price and increased dividend rate, the company's shares yield around 4.94%.

## Fees and costs

Under the terms of its investment management agreement, Ecofin Advisors Limited is entitled to a management fee of 1% per annum of EGL's net assets up to £200m, and 0.75% per annum of net assets thereafter. The management fee is calculated and paid quarterly in arrears. There is no performance fee. For accounting purposes, with effect from 1 October 2022, the management fee and borrowing costs are allocated 60% to the capital account and 40% to the revenue account.

Aside from the management fee and the directors' fees (which are listed on page 21), the main expenses incurred by EGL relate to administration, depositary and legal and advisory fees. BNP Paribas Securities Services S.C.A., London branch, provides administrative services to EGL; Apex Fund Administration Services (UK) Limited, is EGL's company secretary; Citibank UK limited acts as EGL's depositary; Citigroup Global Markets Limited acts as EGL's prime broker and custodian; and EGL's solicitors are Norton Rose Fulbright LLP.

For the 2023 financial year, the ongoing charges ratio decreased to 1.27% from 1.35%.

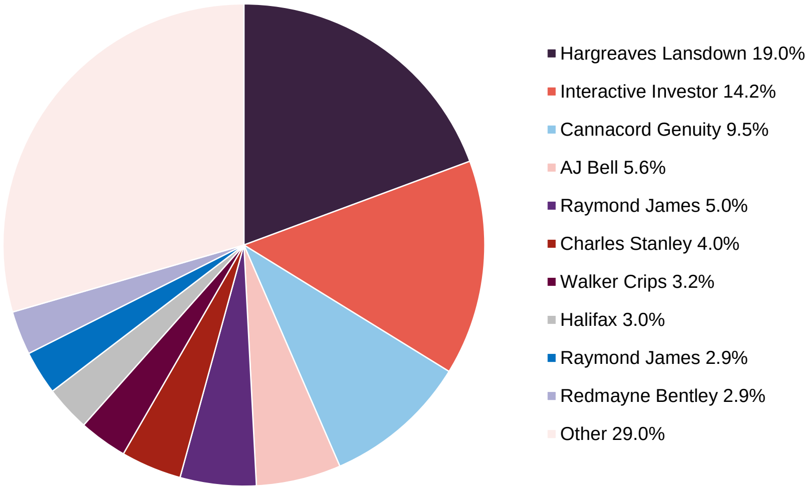
## Capital structure

EGL has a simple capital structure with one class of ordinary share in issue. EGL's ordinary shares have a premium main market listing on the LSE and, as at 31 December 2023, there were 115,115,663 in issue with none held in treasury.

### Diversified share register

The managers highlight that EGL's share register is well diversified with an array of institutions, private wealth managers and retail holders. The top 10 largest investors accounted for 71% of EGL's issued share capital as at 31 December 2023.

### Figure 21: Major shareholders as at 31 December 2023




**Source:** Bloomberg, Marten & Co

## Gearing

EGL's 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 has a 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 50bps over the applicable benchmark rate. Citigroup introduced a minimum monthly fee for its services, equivalent to $200,000 per annum, effective 1 April 2022. The gearing is not structural in nature and borrowings can be repaid at any time. As at 31 December 2023, the level of gearing was 7.7%.

## Unlimited life with five-yearly continuation votes

EGL has been established with 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. The next continuation vote is scheduled for the company's AGM in March 2024.

## Financial calendar

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 pays quarterly dividends on the last business day of February, May, August and November each year.

## Board

EGL's board is composed of four directors, all of whom are non-executive and are considered to be independent of the investment manager. The board has undergone a modest refresh recently with the appointment of Joanna Santinon as a non-executive director of the company on 12 September 2023. Joanna, an experienced accountant and financial professional, will become the chair of the audit committee when Iain McLaren retires from the board at the AGM in March 2024.

EGL's articles of association require that all board members offer themselves for re-election annually and limit total directors' fees to £200k per annum. Other than EGL's board, its directors do not have any other shared directorships.

### Figure 22: Board member – length of service and shareholdings

| Director | Position | Date of appointment | Length of service | Annual fee (GBP) | Shareholding [1] |
|---|---|---|---|---|---|
| David Simpson | Chairman of the company | 23 May 2014 | 7 | 40,000 | 91,739 |
| Iain McLaren | Chairman of the Audit Committee and senior independent director | 29 March 2011 | 6 | 33,500 | 26,840 |
| Max King | Chairman of the Remuneration Committee | 11 September 2017 | 7 | 29,000 | 30,209 |
| Susannah Nicklin | Director and Chair of the Management Engagement Committee | 9 September 2020 | 3 | 29,000 | 15,129 |
| Joanna Santinon | Non-executive Director | 12 September 2023 | - | 1,509 | - |

**Source:** Ecofin Global Utilities and Infrastructure Trust, Marten & Co) as of September 30 2023

### David Simpson (chairman)

David 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, and a director of Aberdeen New India Investment Trust Plc, the British Geological Survey and ITC Limited, a major listed Indian company. David was appointed as a director of the company at admission on 26 September 2016.

### Iain McLaren (Audit Committee chairman and senior independent director)

Iain 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 director of Wentworth Resources plc and of Jadestone Energy Inc. He is a past president of the Institute of Chartered Accountants of Scotland. Ian was appointed as a director of the company at admission on 26 September 2016.

### Malcolm (Max) King (chairman of the remuneration committee and director)

Max 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 also a columnist for MoneyWeek magazine. Max is currently a director of Gore Street Energy Storage Fund Plc. He was appointed as a director of the company on 11 September 2017.

### Susannah Nicklin (chair of the management engagement committee and director)

Susannah is an experienced non-executive director and financial services professional with 25 years of experience in executive roles in investment banking, equity research and wealth management at Goldman Sachs and Alliance Bernstein in the US, Australia and the UK. Susannah is chair of the Schroder BSC Social Impact Trust Plc and a non-executive director of Baronsmead Venture Trust Plc, The North American Income Trust Plc and Frog Capital LLC. She holds the Chartered Financial Analyst qualification. Susannah was appointed as a director of the company on 9 September 2020.

### Joanna Santinon (non-executive director)

Joanna is a chartered accountant and chartered tax adviser. She specialised in tax, transactions and private equity, and gained wider experience including mergers and acquisitions, strategic investments, capital raisings and listings in her 24-year career at EY. Joanna was a founder member of the 30% Club in the UK. She is a non-executive director and audit committee chair of Octopus Future Generations VCT Plc and of Guinness VCT Plc. She is also a trustee of The Centre For Entrepreneurs. Joanna was appointed as a director of the company on 12 September 2023.

## Previous publications

**Figure 23: QuotedData's previously published notes on EGL**

| Title | Note type | |
|---|---|---|
| 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 |
| Resilient income | Annual overview | 25 June 2020 |
| A wealth of opportunities | Update | 16 December 2020 |
| Happy birthday to ya! | Annual overview | 28 October 2021 |
| A portfolio for all seasons | Update | 22 November 2022 |
| Utilities and infrastructure at low tide | Update | 22 August 2023 |

Source: Marten & Co

Readers interested in further information about EGL may wish to read some of the earlier notes that we have published, a list of which is provided above.

## IMPORTANT INFORMATION

Marten & Co (which is authorised and regulated by the Financial Conduct Authority) was paid to produce this note on Ecofin Global Utilities and Infrastructure Trust Plc.

This note is for information purposes only and is not intended to encourage the reader to deal in the security or securities mentioned within it.

Marten & Co is not authorised to give advice to retail clients. The research does not have regard to the specific investment objectives financial situation and needs of any specific person who may receive it.

The analysts who prepared this note are not constrained from dealing ahead of it but, in practice, and in accordance with our internal code of good conduct, will refrain from doing so for the period from which they first obtained the information necessary to prepare the note until one month after the note's publication. Nevertheless, they may have an interest in any of the securities mentioned within this note.

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

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

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

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

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

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

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

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


QuotedData is a trading name of Marten & Co, which is authorised and regulated by the Financial Conduct Authority.

**50 Gresham Street, London EC2V 7AY**
**0203 691 9430**

**www.QuotedData.com**

Registered in England & Wales number 07981621,
2nd Floor Heathmans House,
19 Heathmans Road, London SW6 4TJ

Edward Marten (em@quoteddata.com)

Nick Potts (np@quoteddata.com)

Aiman Shaikh (as@quoteddata.com)

Veronica Cappelli (vc@quoteddata.com)

Jemima Grist (jg@quoteddata.com

**INVESTMENT COMPANY RESEARCH:**

Matthew Read (mr@quoteddata.com)

James Carthew (jc@quoteddata.com)

David Johnson (dj@quoteddata.com)

Andrew Courtney (ac@quoteddata.com)

Richard Williams (rw@quoteddata.com)