

Ecofin Global Utilities and Infrastructure Trust

Staying nimble

Ecofin Global Utilities and Infrastructure Trust (EGL) is two years old. The period since its launch has been one in which utilities and infrastructure have faced significant headwinds from rising interest rates and investors' focus on growth stocks. Despite this, it has thrived.

Its manager has been nimble, moving to take advantage of opportunities provided by swings in sentiment and increasing gearing to buy stocks he has identified as being of good quality and cheap. This strategy has contributed significantly to EGL's performance. Valuations have moved back towards their five-year averages and, in a world that is increasingly late cycle, utilities' defensive characteristics should find favour if markets dislocate more decisively. Irrespective of this, Jean-Hugues de Lamaze (EGL's manager) is confident about reaching the trust's long-term total return target of 6-12% per annum. He cites improving balance-sheet strength, increasing power prices and earnings, in many cases faster dividend growth than their broader markets, reasonable valuations and the potential for M&A as reasons investors should be positive about the outlook for the sector.

Developed markets utilities and other economic infrastructure exposure

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

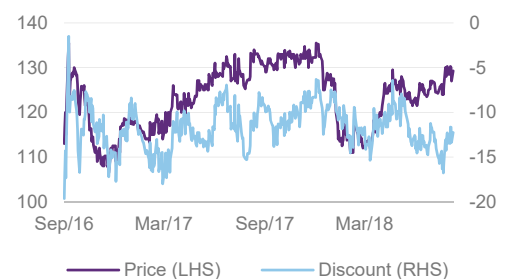
Year ended	Share price total return (%)	NAV total return (%)	MSCI World Utilities TR. (%)	MSCI World total return (%)	MSCI UK total return (%)
30/09/17	12.7	8.6	7.0	15.0	11.1
30/09/18	0.2	2.4	(1.9)	12.7	3.6

Source: Morningstar, Marten & Co

Sector	Sector specialist: Utilities
Ticker	EGL LN
Base currency	GBP
Price	120.00p
NAV	137.26p
Premium/(discount)	(12.6%)
Yield	5.3%

Share price and discount

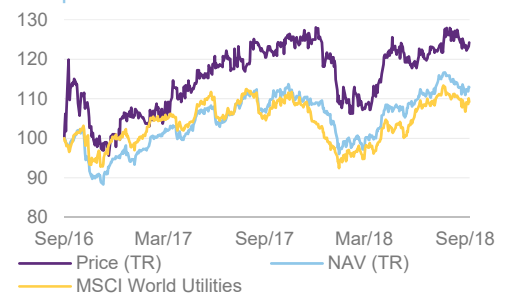
Time period 26/09/2016 to 11/10/2018



Source: Morningstar, Marten & Co

Performance since launch

Time period 26/09/2016 to 30/09/2018



Source: Morningstar, Marten & Co

Domicile	United Kingdom
Inception date	26 September 2016
Manager	Jean-Hugues de Lamaze
Market cap	110.2m
Shares outstanding	91.9m
Daily vol. (1-yr. avg.)	182.0K shares
Net gearing	11.3%

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Fund profile

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

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

EGL has a strong focus on capital preservation.

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

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

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

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

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

Ecofin Limited

Ecofin Limited are specialists in the utilities, infrastructure, alternative energy and environmental sectors. ESG research is incorporated into the investment process.

EGL's portfolio is managed by Ecofin Limited (Ecofin). Founded in 1992, Ecofin is an independent London-based asset management firm that specialises in investing in the utilities, infrastructure, alternative energy and environmental sectors. Ecofin has a strong focus on sustainable investing and environmental, social and governance (ESG) research is incorporated into the investment process across all of Ecofin's strategies.

Experienced lead manager: Jean-Hugues de Lamaze

Jean-Hugues de Lamaze is senior portfolio manager for EGL and was named a partner of Ecofin in May 2016, having joined in 2008. Jean-Hugues was the senior portfolio manager for EGL's predecessor vehicle, Ecofin Water & Power Opportunities, for the six months prior to the September 2016 reconstruction. He has also led Ecofin's European team for nine years. Previously, Jean-Hugues co-founded UV Capital LLP and served as its CIO, oversaw the Goldman Sachs European Utilities research team and was a senior European analyst, and head of French research and strategy, at Credit Suisse First Boston.

Jean-Hugues is a non-executive board member of Direct Energie S.A, a CFAF certified analyst and a member of the French Financial Analysts Society. He completed the INSEAD International Executive Programme, graduated from the Paris-based business school Institut Supérieur de Gestion and earned his LLB in Business Law from Université De Paris II - Panthéon Assas.

Jean-Hugues follows an investment process that is driven primarily by bottom-up stock selection, based on extensive fundamental research of potential investments. This is coupled with a top-down overlay that informs the overall geographical and sector positioning. The portfolio is not managed with respect to any particular benchmark and has a focus on stocks with above-average dividend growth. Please see pages 9 to 12 of our May 2017 initiation note for more detail on EGL's investment process.

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 comparison purposes, EGL refers to the MSCI World Utilities Index, the MSCI World Index and the All-Share Index in its own literature. We are using a similar approach here but are using the MSCI UK Index to represent the UK market. Of the three indices, we consider the MSCI World Utilities to be the most relevant although it should be noted that this index has a strong bias towards US companies (58.9% as at 28 September 2018).

Market outlook and valuations

Recent history and valuations

As illustrated in Figures 1 and 2, global utilities have broadly underperformed global equity markets during the last five years. Figure 1 illustrates that there have been distinct periods of out or underperformance. These have been largely driven by top-down macroeconomic considerations with global equity markets either being in risk-on or risk-off mode. When investors are optimistic on the outlook for the global economy, defensives, such as utilities and infrastructure stocks, tend to underperform as the market has focuses on cyclicals. Equally, when investors' concerns are heightened, utilities and infrastructure tend to return to favour and outperform the broader market. This has been particularly apparent during the last few days,

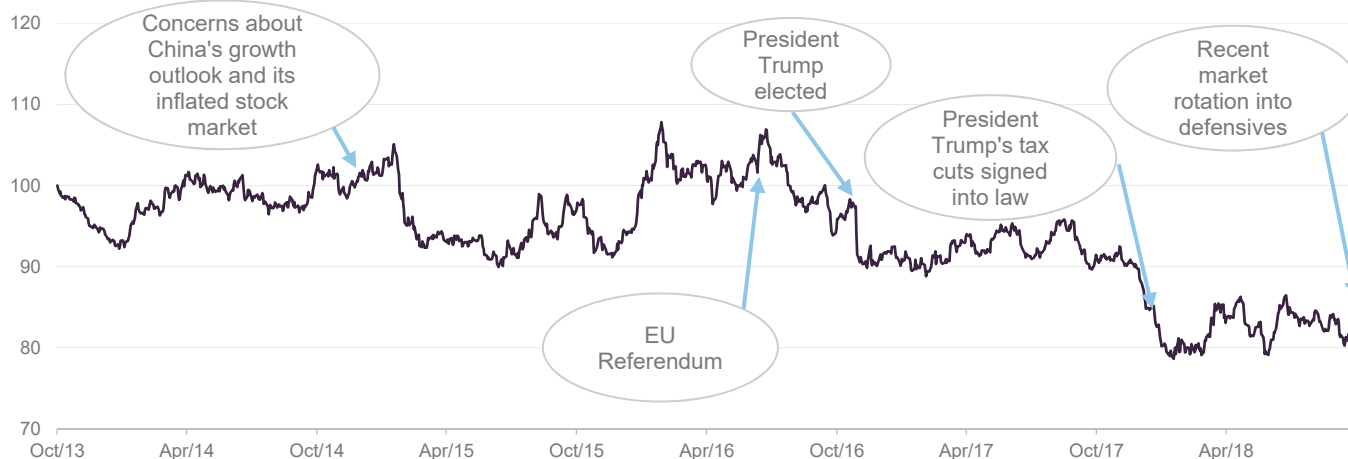
Excitement in the run up to and following President Trump's tax reforms, which are seen as a boon for business, saw utilities underperform the broader market. This reversed a little as macroeconomic concerns came to the fore (high employment levels, labour markets tightening, wage rates edging up and nascent signs that consumer prices are also on the rise). More recently, markets have been rattled, seemingly by the prospect of rising interest rates. It is too early to say if this will be sustained or whether this is a small late cycle adjustment.

Prior to market movements in recent days, global equity markets (as measured by the MSCI World Index) were close to 5-year highs. Global utilities, as measured by the MSCI World Utilities Index, are also close to five-year highs but their overall gains had been much more muted (Figure 2). The averages hide the dispersion of returns across regions too. Since EGL's launch until 30 September 2018, for example, UK, continental European and US utilities returned approximately -18%, +24% and +10%, respectively

(total returns in sterling). Valuations for both global equities and global utilities are now modestly below their 5-year averages.

For example, as illustrated in Figure 3, the MSCI World Utilities Index was trading at a 12-month forward P/E ratio of 16.7x at 11 October 2017. A year later, this was 15.6x and just below its five-year average of 15.9x and 11.6% below its five-year high of 17.6x (five-year range: 14.1x to 17.6x).

Figure 1: MSCI World Utilities/MSCI World, rebased to 100, over five years



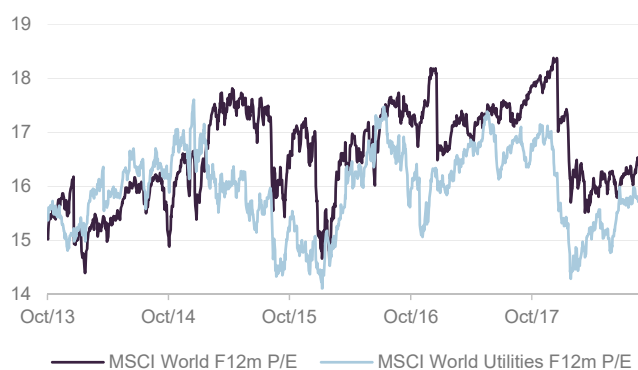
Source: Morningstar, Marten & Co.

Figure 2: MSCI World and MSCI World Utilities Index performance rebased to 100 over five years



Source: Bloomberg, Marten & Co.

Figure 3: MSCI World and MSCI World Utilities F12m P/E ratios over five years



Source: Bloomberg, Marten & Co.

Global utilities and interest-rate sensitivity

Rising interest rates are generally considered to be negative for equities, as an asset class, with utilities at the more sensitive end of the spectrum. The conventional logic is that utilities tend to have stable cash flows and so can support higher levels of debt within their capital structures than many other equities. However, with higher levels of debt comes greater sensitivity of profits to changes in interest rates.

In reality, the relationship is more complicated. Taking a medium-to-longer term perspective, there is much evidence to suggest that the correlation between the performance of the utilities sector and interest rates is weak. A simplistic view might say higher interest rates tend to depress the earnings of indebted companies, such as many utilities, and also increase the discount rate used by the market to ascribe a value

to their future earnings, both depressing valuations. However, utilities are largely regulated businesses whose pricing is periodically reset through tariff reviews. Most regulators will allow inflation to be passed through to the end user, thereby offsetting the longer-term impact of interest rate rises and allowing utilities to earn a real return reflective of market conditions.

In more inflationary environments, which are usually accompanied by rising interest rates, utility companies are frequently permitted to increase their tariffs in nominal terms. Both effects will tend to have a positive impact on earnings and exert upward pressure on valuations. Other sectors may not benefit from such automatic adjustments. EGL's manager says that pure regulated utilities have some correlation to interest rates but globally, and especially in Europe, utilities tend to be diversified with a variety of business models and degrees of regulation.

There is the prospect of further market volatility as interest rates move towards normalisation. However, utility valuations suggest that much is already factored into current prices and this could still be an attractive entry point for the longer-term investor, particularly given the prospect of increasing volatility in equity markets.

Manager's view

Top-down driven market is creating opportunities

When we last published on 29 March 2018, we discussed how negative sentiment for the sector, against a backdrop of improving fundamentals, had created an opportunity for EGL's manager to buy high-quality stocks at attractive valuations. Jean-Hugues was in buying mode in February and March, using proceeds from some sales and also borrowings to reposition the portfolio. This led to significant gains for EGL's NAV between March and May. Jean-Hugues says that, during the last few years, the market has been very top-down driven and that, since EGL's launch, the macroeconomic environment has overwhelmingly acted as a headwind. Nonetheless, the volatility creates opportunities and Jean-Hugues is comfortable that EGL can still provide very attractive and sustainable returns in this environment.

A diverse sector; not a collection of bond proxies

Jean-Hugues highlights that, while investors view utilities as both defensive and interest-rate sensitive, the sector is not uniform. It is actually a very diverse space comprising different businesses, with different strategies, including large integrated companies and small companies with a more niche focus. Some companies can exhibit high levels of growth, while others are mature. There is also considerable variation in the extent to which these businesses are regulated. In summary, it is far too simple to treat the space as a uniform collection of bond proxies.

Rising interest rates is not necessarily a concern

Jean-Hugues highlights that EGL was launched at the bottom of the interest rate cycle and the sector has been through two steepening periods since, i.e. following President Trump's election (November 2016) and in the wake of his tax reforms (December 2017). This has not prevented the manager from generating positive returns over the period (an NAV total return of 12.4%).

Jean-Hugues says that while the market focuses on such moves, they are not necessarily negative for the space, particularly over the longer term. His view is that these companies' profitability is actually more sensitive to the differential in interest rates (short versus long-term) rather than the absolute levels. This is because interest rates tend to respond to movements in inflation and many companies, particularly those which are regulated, benefit from an inflation pass-through. Jean-Hugues is therefore not particularly worried about inflation, although he does acknowledge that it has an impact on sentiment. He highlights that:

- Most utilities/infrastructure companies operate with fixed long duration debt so are protected from rising rates
- We are still in a very low interest rate environment anyway
- Gearing levels within utilities have generally decreased during the last decade. Free cash flow has been used to pay down debt, in the post financial crisis era, leading to a significant improvement in balance sheets.

Jean-Hugues says that, even if the yield on 10-year US treasuries increased to 4% by the end of 2019, this should not be an issue for the sector. He believes that it will still be able to generate attractive returns and highlights dramatically improving balance sheets and cash flows in the sector, particularly in Europe.

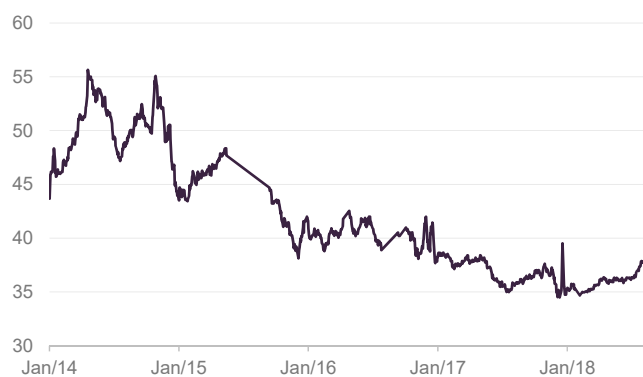
Power prices are trending higher

Figure 4: UK Power Baseload Forward Season 1 price (£/MWH)



Source: Bloomberg

Figure 5: US Power PJM western Hub real time Peak Forward Year 1 price (US\$/MWH)



Source: Bloomberg

Figure 6: Germany Power Baseload Forward Year 1 price (€/MWH)



Source: Bloomberg

Figure 7: UK NBP Natural Gas Forward Season 1 price (£/therm)



Source: Bloomberg

As illustrated in Figures 4 to 6, power prices have increased meaningfully this year, especially in the UK and continental Europe (power prices are close to ten-year highs in the UK and Germany, while power prices in the US have ticked higher). However, 12 months ago, when prices were much lower than their 2008 peaks, commentators were saying that, with an ever-increasing supply of renewables entering the market and increasing energy efficiency, power prices would be broadly on a downward trend hereafter. It is therefore fair to question, what is driving the resurgence in power prices. Jean-Hugues says there are two key factors:

- Commodity prices (notably coal and natural gas) have risen significantly, notably on the back of strong Chinese demand.
- Reform of the EU's emission trading system (EU ETS) will lead to a scarcity of carbon credits once again.

As illustrated in Figures 7 and 8, the prices of natural gas and coal have increased significantly (oil is also up but this is much less important than it was 15 years ago) and the carbon price, which had been fairly steady and below €10 per tonne for years, has also risen dramatically (from around €7 per tonne to €20 per tonne in the space of 18 months – see Figure 9) following reform of the EU ETS.

Figure 8: Europe Coal Forward Year 1 price (US\$/metric tonnes)



Source: Bloomberg

Figure 9: Carbon price - ICE EXC Emission Index (€/metric tonne)



Source: Bloomberg

Launched in 2005, the EU ETS is the largest greenhouse gas emission trading system in the world but it has suffered from an excessive issuance of certificates over the last 15 years. Previous efforts to reform the system had been repeatedly thwarted by a number of central European countries but, by agreeing to phase in the changes, the EU has managed to secure reform. This has led to cancellation of carbon certificates, which has reduced their oversupply, created a scarcity effect and pushed up the carbon price and power prices meaningfully. As it was designed to, the change has incentivised countries to exit polluting technologies and Jean-Hugues thinks that the carbon price could rise significantly from here. Consequently, he sees an ongoing move to close coal-fired generation globally (even in Germany – which has traditionally been reliant on coal, with considerable employment in the sector) and scarcity of supply as renewables are not yet able to replicate this baseload generation capacity. This power price increase is highly beneficial to fixed cost producers who are seeing the full benefit drop through to the bottom line.

Improving fundamentals

After a long period of decline, Jean-Hugues expects improving earnings and cashflows in the European utilities sector. Data from Goldman Sachs suggests that net income for this sector is expected to grow at a compound 8% per annum, and by 25%

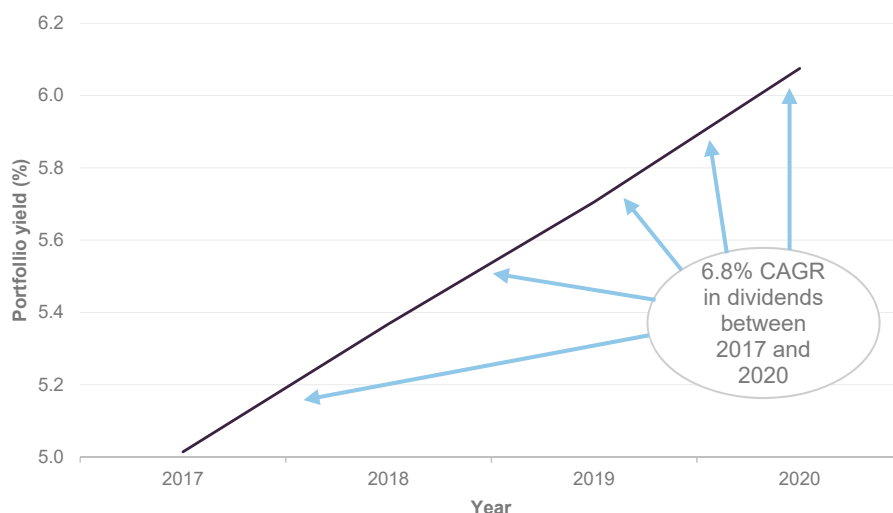
cumulatively through to 2020, while cumulative EPS growth for the market as a whole is expected to be 18%. Secular growth in networks and renewables is expected to drive this growth. In the US, earnings growth in the sector will not, on average, beat the market's (fuelled by tax reform) but it will be robust nonetheless.

Strengthening dividend growth profile of the portfolio

The portfolio yield is currently 4.9% and dividends from companies in the portfolio are expected to grow at a compound rate of 6.8% per annum through to 2020.

Ecofin has analysed the dividend growth profile of EGL's portfolio (forecasts have been prepared on a stock-by-stock basis) and the results are illustrated in Figure 10 below (which assumes no growth in net assets). The portfolio yield is currently in the region of 4.9% and dividends from companies in the portfolio are expected to grow at a compound rate of 6.8% per annum through to 2020. This has increased since we last published in March 2018, when the CAGR was 6.5%. Jean-Hugues believes that underlying earnings are growing in strength. He reiterates that this profile helps him to feel confident about reaching the trust's long-term total return target of 6-12% per annum.

Figure 10: EGL portfolio dividend yield profile over the next three years*



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

M&A

In our March 2018 note, we commented that Jean-Hugues believed that E.ON's acquisition of the controlling stake in Innogy from RWE could trigger a phase of M&A activity across Europe. Jean-Hugues says that, having seen a decade with no such transactions in the space (the larger players' balance sheets were too indebted to finance these deals), global M&A is now returning. He says that EGL's portfolio has benefitted from several M&A deals during the last six months and the sector globally has seen a record number of transactions in 2018. He thinks that many of EGL's holdings are potential takeover candidates and the return of M&A could be very beneficial for the trust.

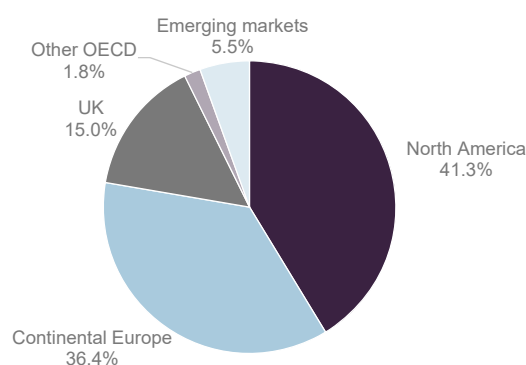
Asset allocation

EGL had 42 holdings as at 30 September 2018. This is a reduction from the 45 holdings EGL had at the end of February 2018 (the most recently available data when we last published). Portfolio concentration has seen an uptick. The top 10 holdings accounted for 41.3% at the end of August 2018, up from 37.0% at the end of February 2018. The portfolio's beta (versus the MSCI World Utilities Index) is in the region of 0.85 and the portfolio's yield was 4.9% as at 30 September 2018. This is significantly above the market average of 2.4%.

Since we last published, EGL has begun to provide some additional detail in its published numbers by splitting out the UK as a separate item in its geographical allocation and splitting out infrastructure as a separate item in its subsector allocation. We welcome this additional transparency. When we last wrote, EGL had a combined allocation to Europe (including the UK) of 50.3% as at 28 February 2018. As at 31 August 2018, Europe including the UK was effectively unchanged, still accounting for 50.3%.

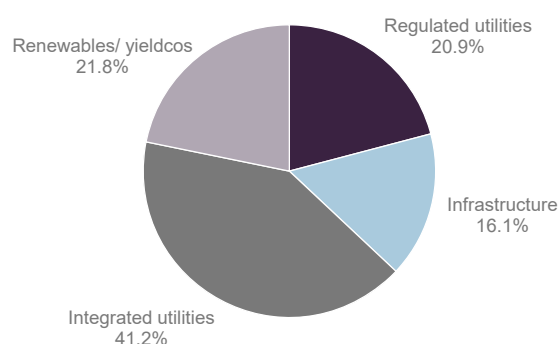
Due to market weakness and purchases using additional borrowings, gearing moved significantly higher in Q1 2018. As EGL's sectors recovered and the NAV responded well, the level of gearing gradually declined; a reduction in holdings in emerging markets (from about 8% to 5%) also contributed to the decline in gearing.

Figure 11: Geographic allocation as at 30 September 2018



Source: Ecofin Global Utilities and Infrastructure Trust

Figure 12: Sub-sector allocation as at 30 September 2018



Source: Ecofin Global Utilities and Infrastructure Trust

Figure 13: Top 10 holdings as at 30 September 2018

Holding	Sector	Geography	Allocation 30 Sep 18 (%)	Allocation 28 Feb 18 (%)	Change (%)
NextEra Energy	Renewable energy	US	5.6	5.2	0.4
Exelon	Electricity	US	5.1	3.4	1.7
EDF	Electricity	France	4.8	4.1	0.7
Iberdrola	Electricity	Spain	4.4	3.2	1.2
Covanta	Waste to energy	US	3.9	3.0	0.9
National Grid	Electricity & gas distribution	UK	3.5	1.8	1.7
Algonquin Power and Utilities	Renewable energy	Canada	3.3	3.1	0.2
Williams Companies	Energy infrastructure	US	3.3	2.6	0.7
NextEra Energy Partners	Renewable energy	US	3.1	2.5	0.6
Terraform Power	Renewable energy	US	3.1	2.9	0.2
Total of top 10			40.1	37.0	3.1

Source: Ecofin Global Utilities and Infrastructure Trust

Around 50% of EGL’s portfolio is invested in Europe, including the UK, but the typical allocation is 45% Europe and 45% US, with the rest of the world up to 10%.

We expect EGL to maintain positive net gearing reflecting its commitment to use leverage to enhance portfolio income.

At 50.3%, the allocation to Europe is slightly higher than the manager’s expected long-term average. The manager says that the typical allocation for the portfolio is 45% Europe, 45% US and the rest of the world up to 10%.

Figure 13 shows EGL’s top 10 holdings as at 31 August 2018 and how these have changed since we last published. Covanta, Williams Companies, Algonquin Power and Utilities and NextEra Energy Partners have all returned to the top 10, while National Grid has also moved up. We discuss some of these companies, including some commentary on the manager’s views on each, below.

As EGL’s investment objective contains an explicit reference to using gearing to enhance the portfolio’s income, we believe investors should expect EGL to be fully invested and have positive gearing unless there are exceptional circumstances. EGL’s articles of association permit it to gear up to a maximum of 25%, but a more realistic upper limit is between 18-20% in the manager’s view.

Figure 14: Covanta share price (US\$)



Source: Bloomberg

Covanta (4.2%)

US based Covanta (www.covanta.com) is a leading provider of waste-to-energy services (circa 70% share of the US market). The majority of its operations are in the US, but it also has three facilities in Europe and one in China. The company generates revenues from waste-disposal contracts with municipalities as well as from sales of the electricity and recycled metals produced as outputs.

Covanta has been a constituent of EGL’s portfolio for some time (see our May 2017 initiation note for more discussion). It has moved up EGL’s rankings on the back of strong performance since April this year (it has benefitted from a ban on sending plastic waste to China). It is the largest waste incinerator company in the US. He thinks that these facilities are now seen as being part of a long-term sustainable solution to waste management. However, they are not without controversy (proposed new sites tend to create considerable local opposition) and Jean-Hugues considers that Covanta is the only player well placed to open new facilities (either by expanding existing sites or by using its track record to secure new facilities). Jean-Hugues thinks that Covanta’s assets are desirable (he says that the company recently sold some assets to Macquarie at a price that more than covers its invested capital), it has high revenue visibility (it generates stable cash flows, backed by contracts and hedges on 85% of revenues, and further supported by solid 25% EBITDA margins), low capex requirements as its assets are already established, and offers around a 6% dividend yield. He thinks that Covanta is capable of delivering 10% free cash-flow growth through 2020 and says that this will support deleveraging and dividend growth.

Figure 15: Williams Companies share price (US\$)



Source: Bloomberg

Williams Companies (3.6%)

Williams Companies (co.williams.com) is an energy infrastructure company that is engaged in the gathering, treatment and processing of natural gas (principally in Texas, Oklahoma and the Rocky Mountain region), and in interstate gas transportation. It has also been a constituent of EGL’s portfolio for some time (we first discussed it in our May 2017 initiation note – see page 14 of that note). The market responded favourably to the announcement that it is bidding for its master limited partnership (MLP).

Jean-Hugues has previously said that he believes Williams is well-positioned to capitalise on demand growth for natural gas and natural gas liquids. He likes the business, which has been deleveraged and derisked through asset sales and contract renegotiations, following the cancellation of a proposed merger in 2016.

Figure 16: Algonquin Power and Utilities share price (CAD\$)



Source: Bloomberg

Algonquin Power and Utilities (3.3%)

Algonquin Power and Utilities (algonquinpower.com) is a renewable energy and regulated utility with assets across North America. It has two operating subsidiaries, Liberty Power and Liberty Utilities, through which it invests in hydroelectric, wind and solar-power facilities, and utility businesses.

Jean-Hugues says that Algonquin has a strategy of buying large, dirty coal-fired generating assets; migrating them to renewable generating assets; and driving up earnings in the process. It was a big acquirer in the US last year and Jean-Hugues says that it has a strong track record of completing value-adding M&A transactions, including the acquisition of yieldcos.

National Grid (3.3%)

National Grid (www.nationalgrid.com) owns the electricity and gas transmission system in England and Wales. It also has a presence in the US where it provides electricity and natural gas to the north-east states of Massachusetts, New York and Rhode Island where it serves over 3.3m customers with electrical power and 3.4m with natural gas.

EGL's manager added to the position earlier this year on weakness (the threat of nationalisation by a Corbyn-led Labour government being the primary driver). National Grid was EGL's third-largest negative contributor to NAV performance in 2017 (27bp) and while it continued to fall at the beginning of 2018, it has since rebounded strongly from its February lows, although more recently it has been under pressure. Jean-Hugues remains positive on the outlook for National Grid. He acknowledges that the threat of nationalisation remains a risk but thinks these concerns are reflected in the share price and he continues to take a positive view of the company's US business, where he sees further strong growth potential.

Figure 17: National Grid share price



Source: Bloomberg

[Click here to see up-to-date information on the QuotedData website.](#)

Performance

It has been two years since EGL's launch and the period since its inception has been quite a volatile one for global equity markets. This has been exacerbated for utilities which were broadly left behind both during the cyclical rally that followed President Trump's electoral victory, then as markets performed strongly during 2017 and into 2018, aided by President Trump's tax cuts in December 2017.

Figure 18: Cumulative total return performance to 30 September 2018

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	18 months (%)	2 years (%)	Since launch* (%)	Volatility (%)**
EGL NAV	(1.7)	2.4	12.1	4.8	9.9	13.8	12.4	0.70
EGL share price	(2.0)	3.8	12.5	1.1	15.8	13.9	22.3	1.44
MSCI World Utilities	(0.7)	2.1	11.1	4.0	3.9	11.3	9.1	0.74
MSCI World	0.3	6.4	15.2	15.1	17.3	32.4	33.2	0.68
MSCI UK	1.4	(0.4)	8.9	5.9	8.7	17.6	19.1	0.63

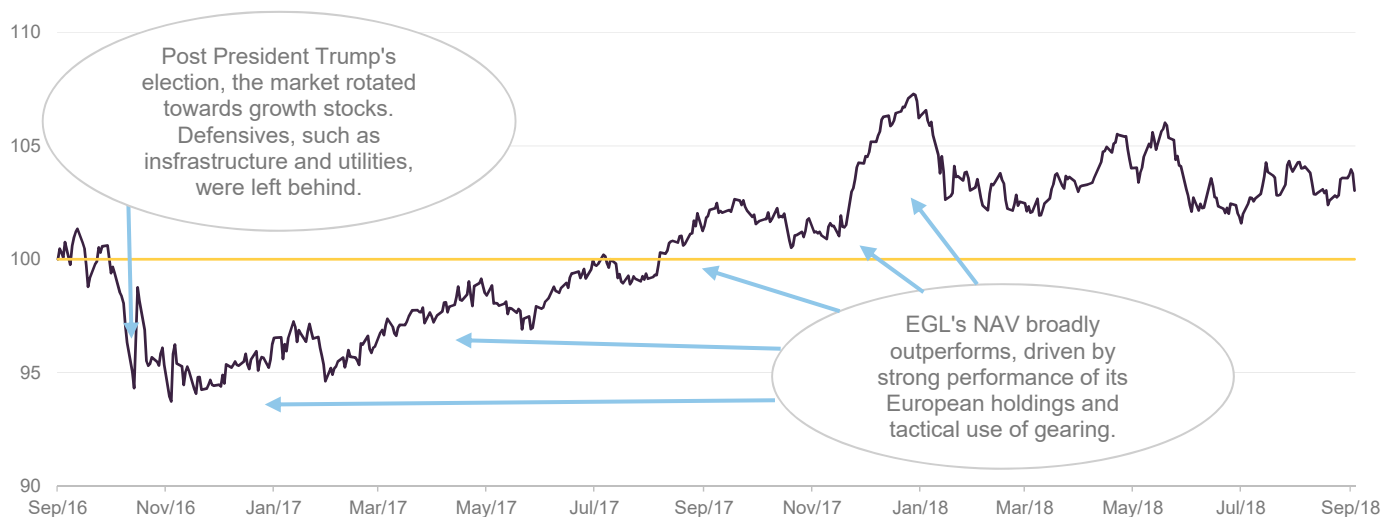
Source: Morningstar, Marten & Co. *Note: EGL was launched on 26 September 2016. **Note: Volatility is the standard deviation of Daily returns from EGL's launch on 26 September 2016 to 30 September 2018.

Set against this backdrop, it is noteworthy that EGL's NAV has outperformed the MSCI World Utilities Index for all of the time periods provided in Figure 18, with the exception of the one-month period, and that this has been achieved with lower volatility of EGL's NAV than the index. The outperformance over 18 months and since launch are particularly marked.

EGL’s manager says that markets and utilities in the US have outperformed other regions. Good stock selection has allowed EGL’s NAV to keep pace with the MSCI World Utilities Index, notwithstanding the portfolio’s relatively lower allocation to US securities (Figure 19). Given the underperformance of EGL’s sectors over the last two years, it is perhaps not surprising to see EGL’s NAV performance trailing that of the MSCI World Index. The marked changes in the numbers in Figure 18 illustrate the risk-on, risk-off nature of equity markets during this time.

Figure 19 shows EGL’s NAV performance relative to that of the MSCI World Utilities Index (in sterling terms). After a difficult start for utilities and renewables everywhere, and especially in Europe following President Trump’s election in Q4 2016, EGL’s NAV advanced well during 2017 (EGL saw positive alpha from its continental Europe, UK and North American portfolios and the decision to gear up the portfolio at the end of 2016, when the market was cheap, proved to be a major driver of outperformance).

Figure 19: EGL NAV/MSCI World Utilities Index* – rebased to 100 since launch



Source: Morningstar, Marten & Co. *Note: EGL was launched on 26 September 2016.

Moving into 2018, EGL suffered in January and February as confidence in US growth saw markets favour cyclicals over defensives. EGL’s manager once again geared up the portfolio to purchase stocks when they were cheap, which led to the outperformance between March and May. Figure 20 gives a breakdown by region of the performance of EGL’s portfolio from launch to 31 August 2018.

Figure 20: Total return performance by region to 31 August 2018 (in local currency terms)

	Portfolio performance (%)	Index performance (%)	Alpha (%)
Pan Europe	10.5	11.1	(0.6)
<i>Continental Europe</i>	16.1	21.5	(5.4)
<i>UK</i>	(2.5)	(15.4)	12.9
North America	17.7	11.6	6.1
Rest of world	32.6		

Source: Ecofin Global Utilities and Infrastructure Trust

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

EGL has a clear dividend policy. It targets a dividend yield of at least 4% on its net assets and can use gearing, and if necessary distributable reserves, to augment its portfolio yield. As a young company, EGL does not have any revenue reserves and distributes all of its net revenues. It uses its distributable reserves (the result of cancelling its share premium account) to make up any shortfall in funding its stated dividend.

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

For a given financial year, the first interim dividend is paid in February, and the second, third and fourth interim dividends are paid in May, August and November, respectively. Dividends are paid on the last business day of the respective month. EGL's first accounting period (from launch to 30 September 2017) was an exception; being slightly longer than a year, the company made five dividend payments of 1.6p per share.

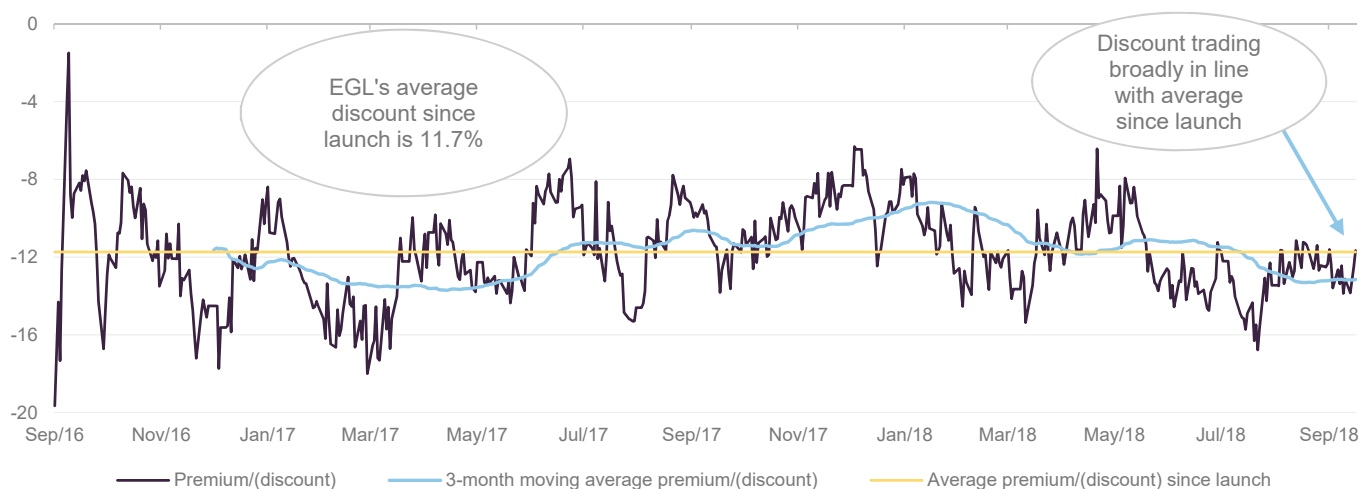
The board advises that it seeks to pursue a progressive dividend policy and so, barring exceptional circumstances, we expect that the board will only want to make upwards revisions to the quarterly dividend rate and will seek to ensure that any increases are sustainable. This suggests a minimum total annual dividend of 6.4p for the year ending 30 September 2018. This is equivalent to a yield of 5.3% on the share price of 120.0p as at 11 October 2018.

Discount / premium

EGL's 12-month average discount is 11.2% (range - 6.3% to 16.8%).

As illustrated in Figure 21, EGL began trading at a discount of 19.6%, but this quickly narrowed, post launch, reaching a minimum discount of 1.5% on 4 October 2016. This initial tightening was short lived and EGL's discount widened and then settled into a trading range (during the last 12 months, EGL has traded at discounts between 6.3% and 16.8%, and an average of 11.4%).

Figure 21: Premium/(discount) since launch



Source: Morningstar, Marten & Co.

Arguably reflecting the defensive nature, or perceived defensive nature, of its underlying holdings, EGL's discount has exhibited a degree of countercyclicality

whereby it has tended to widen when markets rally and investors are seeking more cyclical exposures and narrow when markets soften and investors' appetite for more defensive exposures has increased. This also reflects the market's view of the impact of interest rates on the sector (interest rate rises are generally considered negative for equities in general and particularly for utilities, which tend to have relatively high levels of debt in their capital structures).

The discount as at 11 October 2018 was 12.6%, which is considerably wider than the board would like or expect it to be. EGL is authorised to repurchase up to 15% and allot up to 10% of its issued share capital, which gives the board a mechanism with which it can influence the discount. Any repurchases or allotments must be NAV accretive for remaining shareholders after costs. The board says that it will consider using share repurchases to assist in limiting any sustained discount and discount volatility but, as yet, there is no formal discount control mechanism or discount target.

To date, the trust has not repurchased any of its shares, which is reasonable in our view. Given EGL's current size, we think that share repurchases would likely have a limited impact on the discount as they would also serve to reduce liquidity and put upward pressure on EGL's ongoing charges ratio (its fixed costs being spread over a smaller asset base). Instead, we believe that EGL would be better served by increasing its size. The board and manager share this view and more resource has been allocated to increase awareness of the trust among investors.

Fees and expenses

Management fee

EGL does not pay a performance fee.

Under the terms of its investment management agreement with Ecofin Limited, EGL pays a base management fee of 1.25% per annum of its net assets, which is calculated and paid quarterly in arrears. There is no performance fee.

Secretarial and administrative services

BNP Paribas Securities Services S.C.A., London branch, provides administrative services to EGL for an annual base fee of £110,258, paid monthly in arrears, plus a variable fee based on the company's net assets. The variable fee is charged at 2.25 basis points of the first £75m of net assets, 1.90 basis points between £75m and £200m, 1.60 basis points between £200m and £300m and 0.6 basis points above £300m. BNP Paribas Secretarial Services Limited provides company secretarial services to EGL for a fee of £72,555 per annum. All of these fees are payable under EGL's administration agreement, which can be terminated by either party on six months' notice.

Depositary and prime brokerage agreement

Under the terms of EGL's depositary agreement, Citibank Europe Plc, UK branch, acts as EGL's depositary. For these services, it charges EGL a fee of 3.75 basis points per annum of its net assets. The depositary agreement can be terminated by either party on 90 days' notice. Citigroup Global Markets Limited acts as EGL's prime broker and custodian. It also provides borrowings to EGL (see page 18).

Allocation of fees and costs

EGL's investment management fee and finance costs are charged 50% to revenue and 50% to capital. All other costs are charged wholly to revenue. EGL's interims report included a forecast of its ongoing charges for the year ended 30 September 2018 of 1.98%. This is higher than the figure for the 2017 year (1.68%) due to both a change in the categorisation of research costs and the cessation of a previous fee rebate from the investment manager.

Capital structure and trust life

Simple capital structure

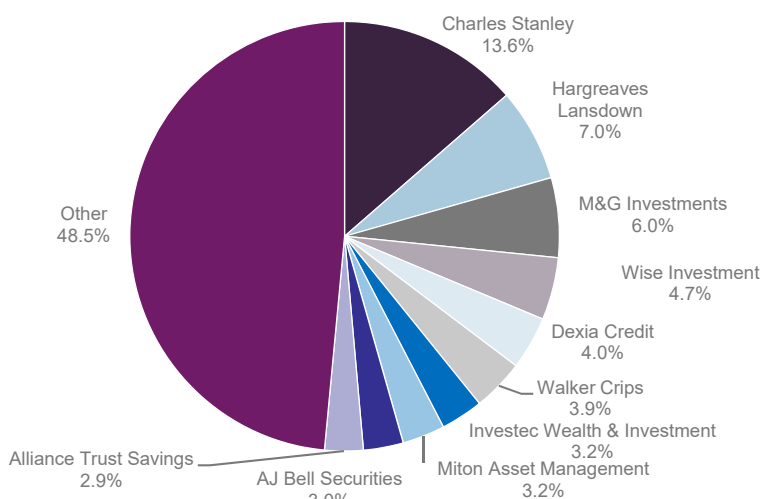
EGL has one class of ordinary share in issue. It can gear up to 25% of net assets.

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 LSE and, as at 11 October 2018, there were 91,872,247 in issue with none held in treasury.

Diversified share register

As illustrated in Figure 22, which provides an illustration of EGL's shareholder base and its largest investors, EGL's share register has a strong institutional presence, but is well diversified with an array of private wealth managers and retail holders. The top 10 largest investors accounted for 51.5% of EGL's issued share capital as at 31 August 2018. Some large institutional holders, which were on Ecofin Water & Power Opportunities' (EWPO's) register for some time before the reconstruction, have sold and their stakes have been purchased by smaller institutions, private wealth managers, platforms and retail customers.

Figure 22: EGL shareholder base as at 31 August 2018



Source: Ecofin Global Utilities and Infrastructure Trust

Competitive borrowing facility provided by prime brokerage facility with custodian

EGL can borrow up to 25% of its net assets although 18% to 20% is a more realistic upper limit.

EGL is permitted to borrow up to 25% of net assets and has a prime brokerage facility, provided by Citigroup Global Markets, for this purpose. Citigroup Global Markets is the custodian of EGL's assets and, under the terms of the facility, lends against these. This high security of collateral means that EGL is able to borrow at very competitive rates; EGL is able to borrow at Libor + 0.5% for major currencies. The terms of the prime brokerage facility require that EGL relies on this solely for its borrowings. The weighted average cost of borrowings is circa 1.4%.

As at 31 August 2018, EGL had net gearing of 11.0%. This is a modest level of net gearing for the trust. Net gearing of around 15% is a more natural level for EGL with a realistic upper limit being 18-20% (EGL's articles have an absolute upper limit of 25%, but this is only likely to be used in extreme circumstances). Recent experience has shown that the manager is prepared to quickly adjust EGL's gearing level where he sees strategic advantage.

Unlimited life with a continuation vote by the end of June 2019

The first continuation vote is due three years from incorporation and then at five-yearly intervals thereafter.

EGL has been established with an unlimited life, but its articles of association require that it offer its shareholders a continuation vote by the end of June 2019 (three years from incorporation) and then at five yearly intervals thereafter. If the resolution is not passed, the directors will be required to bring forward proposals to liquidate, open-end or otherwise reconstruct the company. This puts pressure on the board to ensure that the fund's investment objective is relevant to shareholders' needs and that the fund meets that investment objective.

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. As discussed on page 15, EGL pays quarterly dividends on the last business day of February, May, August and November each year.

The board

Figure 23: Board member - length of service and shareholdings

Director	Position	Date of appointment*	Length of service including EWPO (years)	Annual director's fee (GBP)	Shareholding*	Years of fee invested**
David Simpson	Chairman	23 May 2014	4.4	31,500	87,134	3.3
Iain McLaren	Chairman of the Audit Committee	29 March 2011	7.6	27,000	21,008	0.9
Malcolm King	Director	11 September 2017	1.1	24,300	20,000	1.0
Martin Nègre	Director	5 December 2001	16.9	24,300	2,492,628	123.1
Average (service length, fee, shareholding, fees invested)			7.5	26,775	655,193	32.1

Source: Ecofin Global Utilities and Infrastructure Trust, Marten & Co. *Note: Date of appointment reflects appointment to EGL's predecessor, EWPO. **Note: shareholdings as per most recent company announcements as at 11 October 2018. Years of fee invested based on EGL's ordinary share price of 120.00p as at 11 October 2018.

Four of the current board members transferred across from EWPO's board, ensuring continuity.

All board members stand for re-election annually.

EGL's board members do not have any other shared directorships.

All members have personal investments in the trust.

EGL's board comprises four directors (details of their individual experience are provided below); all members are non-executive and, with the exception of 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 Ecofin – the Ecofin Vista Long-Short Fund and the Ecofin Global Renewables Infrastructure Fund. Three of the four directors were EWPO directors prior to its reconstruction; Malcolm King is the most recently appointed board member, joining the board in September 2017.

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 and, as illustrated in Figure 23, all of the directors have personal investments in the trust. This is favourable in our view, as it shows commitment to the trust and helps to align directors' interests with those of shareholders. It is also noteworthy that, while Martin Nègre is not considered to be independent of the investment manager, he has a very large personal investment in EGL that should serve to bolster his independence. The average length of service is 7.5 years.

David Simpson (chairman)

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 a trustee of Cardiff University and a director of ITC Limited (India's fourth-largest company by market capitalisation). David represents British American Tobacco, which owns approximately 30% of ITC and is its largest shareholder.

Iain McLaren (chairman of the Audit Committee)

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 the senior independent director and audit committee chairman of Cairn Energy Plc. He is also a non-executive director of Baillie Gifford Shin Nippon Plc, Edinburgh Dragon Trust Plc and Investors Capital Trust Plc. He is a past president of the Institute of Chartered Accountants of Scotland.

Malcolm King (director)

Malcolm King is a chartered accountant with over 30 years' experience in fund management. He has previously 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 is a non-executive Director of Gore Street Energy Storage Fund Plc, which listed on the LSE in May 2018 raising £30.6m.

Martin Nègre (director)

Martin Nègre was the Chairman of EWPO until 31 March 2005. He 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

a non-executive director of Northumbrian Water LTD, Bolux SICAV Luxembourg and Messrs Hottinger & Cie, Paris.

Previous publications

Readers interested in further information about EGL may wish to read our previous notes (details are provided in Figure 24 below). You can read the notes by clicking on them in Figure 24 or by visiting our website.

Figure 24: Marten & Co. 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

Source: Marten & Co.

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