Ecofin Global Utilities and Infrastructure Trust

Investment companies | Annual overview | 19 December 2024

Virtues of diversification

Ecofin Global Utilities and Infrastructure Trust (EGL) has continued to generate impressive returns despite broader macro-economic challenges which include stubborn inflation, rising geopolitical concerns, and issues around renewable energy policy in the US. Over the 12 months to 30 November, the portfolio delivered a NAV total return of 20.5% and a share price total return of 22.1%. This highlights the value of its diversified approach with exposure across multiple sectors and geographies allowing it to capitalise on the drivers fuelling the energy transition and global infrastructure cycle.

We continue to believe that the structural increase in the earnings of these utilities and infrastructure sectors in which EGL invests, driven in particular by the acceleration in total electricity demand growth, provides an attractive opportunity for investors. This is made even more compelling given the underlying valuation of the portfolio, which trades at a significant discount to current benchmark multiples.

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 in Europe, North America, and other developed OECD countries.

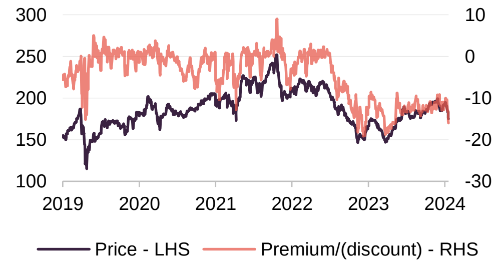
Year ended	Share price TR (%)	NAV total return (%)	MSCI World Utilities TR (%)	S&P Global Infra TR (%)	MSCI World TR (%)
30/11/2020	20.0	14.1	3.5	(8.2)	11.5
30/11/2021	10.8	16.8	4.3	8.2	23.4
30/11/2022	13.3	10.0	11.6	17.4	(3.4)
30/11/2023	(17.5)	(8.8)	(5.9)	(5.2)	9.4
30/11/2024	22.1	20.5	24.6	24.7	28.6

Source: Morningstar, Marten & Co

Sector	Infrastructure securities
Ticker	EGL LN
Base currency	GBP
Price	175.0p
NAV	208.4p
Premium/(discount)	(16.1%)
Yield	4.69%

Share price and premium/(discount)

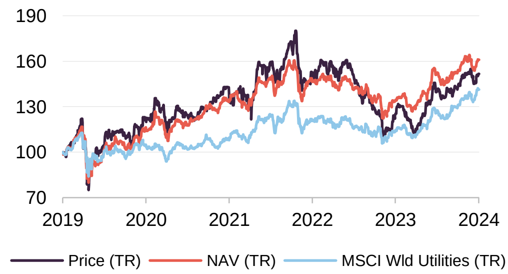
Time period 30/11/2019 to 17/12/2024



Source: Morningstar, Marten & Co

Performance over five years

Time period 30/11/2019 to 30/11/2024



Source: Morningstar, Marten & Co

Contents

Domicile	United Kingdom
Inception date	26 September 2016
Manager	Jean-Hugues de Lamaze
Market cap	194.27m
Shares outstanding	107.925m
Daily vol. (1-yr. avg.)	0.114m shares
Net gearing	15.6%

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Click for EGL's peer group analysis

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Market backdrop

In our last note, published back in June, we highlighted how the combination of strong earnings momentum, high visibility, and attractive valuations across EGL's portfolio provided an excellent opportunity for investors. This has only become more compelling in recent months as markets confront a challenging combination of tepid economic growth expectations, stubborn inflation, and elevated geopolitical concerns, all while valuations at the index level have continued to climb.

US inflation was 2.8% in October, the highest reading in over six months.

Although the sharp fall in inflation has no doubt been a positive, allowing interest rates to begin to normalise, we have seen a growing trend that the final leg towards central banks' 2% inflation targets has been a struggle, particularly in the US. In recent months, inflation has continued to come in above expectations, with the latest data showing a year-on-year growth rate in the Fed's preferred measure of inflation (personal consumption expenditures) of 2.8%, the highest reading in over six months.

The picture is clouded further by the outcome of the US election, following the Republican sweep of the Presidency, House, and Senate. Anticipated policy changes – including trade, immigration, and tax – are expected to be inflationary, driving treasury yields higher.

On a relative basis, US equity index multiples are now the highest since data began over a century ago

The combination of stubborn inflation and nominally restrictive financial conditions sits at odds with equity markets which continue to climb. On a relative basis, US equity index multiples are now the highest since data began over a century ago, and now make up over 70% of the global benchmark – for comparison, this was around 30% in the 1980s.

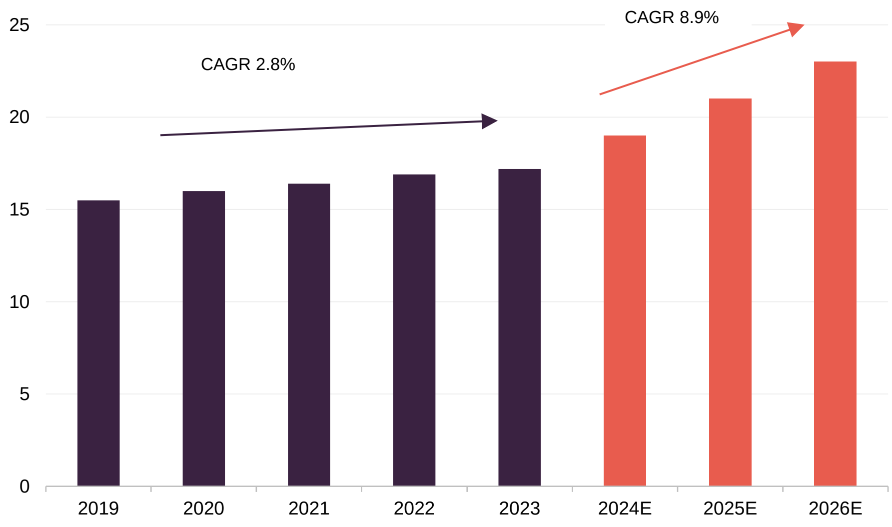
In Europe, inflation is less of a concern, however in conjunction with anaemic growth (which is also a factor in the UK), the picture is far from rosy, especially considering the political uncertainty in both Germany and France.

Modern utilities

Due to the resilience and visibility of their earnings across economic cycles, we have continued to beat the drum for the modern utility and infrastructure companies that EGL holds. They should provide an excellent hedge for current market conditions. Their defensive characteristics were evident during the peak of the post pandemic inflation surge, as earnings growth remained positive thanks to the sector's effective pricing power (as operators of essential infrastructure) and exposure to government subsidies, hedging strategies, inflation linkages, and long-term fixed-price contracts.

Crucially, as we discussed in detail in our previous note (which you can read here), these companies can no longer be considered simple defensive plays due to their evolving business mixes (i.e. much less conventional generation and commodity price exposure) and modern revenue contracts derived from clean energy production and distribution. As Figure 1 highlights, many utility companies are now capable of providing earnings and dividend growth comfortably ahead of broader market averages.

Figure 1: S&P 500 Utilities EPS growth



Source: Bloomberg

A prime example of this is the performance of EGL portfolio companies Vistra and Constellation. The two US utilities are in the top 10 best performers in the S&P500 so far this year and are beneficiaries of the downstream effects of the AI boom as they are capable of providing decarbonised baseload energy to fuel the increasing power demands of energy-hungry data centres. The managers note that this power demand is expected to increase by a factor of five from today's level in the US, to around 107TWh by 2027.

> Power used for AI is expected to increase by a factor of five from today's level in the US, to around 107TWh by 2027.

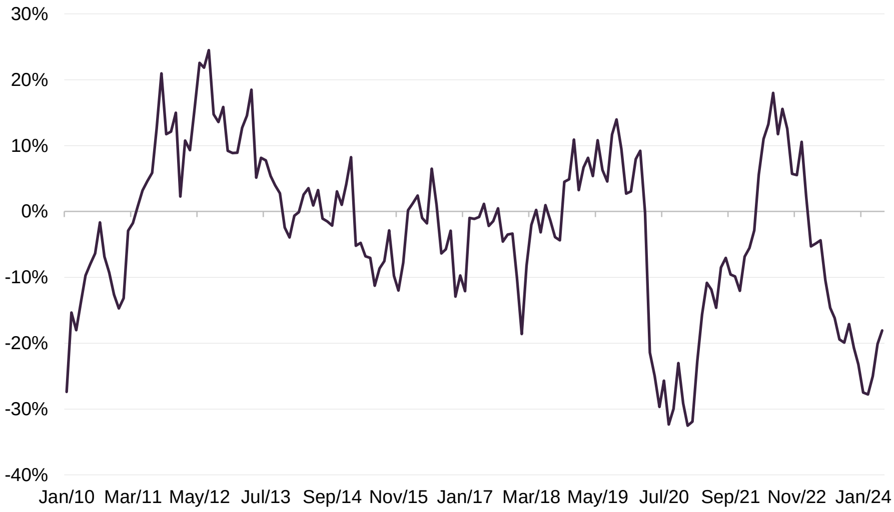
Highlighting the significant fundamental upside of these changing demand dynamics was the recent announcement that Microsoft has agreed to purchase the entire output of Constellation's 835MW nuclear plant at Three Mile Island which will come back online in 2028. Constellation estimates that this capital investment shifts its earnings per share growth rate to c. 13% p.a. for 2024-2030, versus 10% p.a. previously.

The scale of these moves – and the strong performance of US utilities generally - has helped drive EGL's NAV higher over the last few months, and whilst the opportunity provided by data centre growth and AI is certainly significant, as we discuss in the asset allocation section, this is just one component of the broader energy transition and infrastructure development cycle providing long-term, structural growth for EGL.

Despite these fundamental changes, the sector has been neglected by generalist investors, leading relative valuations to fall below levels seen during the worst of the GFC. Whilst there has been a positive inflection off these lows, valuations remain deeply depressed.

In our view, this provides investors with the best of both worlds; an opportunity to buy resilient, secular growth themes at a dramatic discount to current benchmark multiples.

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



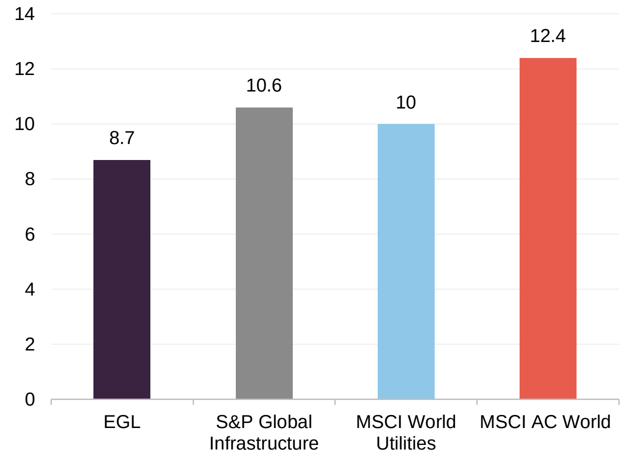
Source: Morningstar, Marten & Co

EGL maintains a portfolio of assets with high barriers to entry, effective pricing power, sustainable growth and predictable cash flows.

Portfolio – Asset allocation

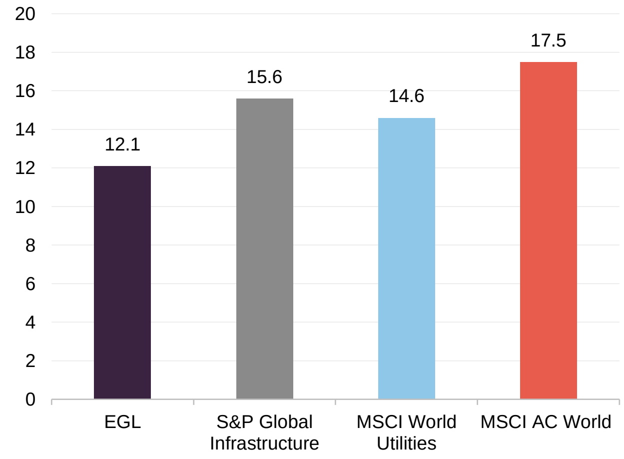
One of the key factors driving the managers' investment decisions is the belief that the market still views the utilities sector as mostly homogenous, failing to recognise the deep structural changes that have occurred over the past decade. The managers of EGL have been able to capitalise on these dislocations, with the portfolio trading on a significant discount to equivalent market benchmarks.

Figure 3: 1-year forward EV/EBITDA multiple



Source: Bloomberg

Figure 4: 1-year forward P/E multiple



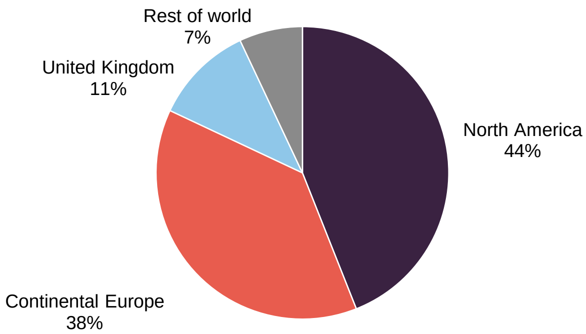
Source: Bloomberg

As we have highlighted, the growth capabilities of many of these companies have advanced well past the plus or minus GDP characterisations with which they have often been associated. The opportunities are clear when you look at performance of Vistra and Constellation; however, this transformation goes well past changes to the energy market. The managers highlight construction and transportation company Vinci, which continues to drive impressive returns from its toll roads and airport concession investments, and environmental services company Veolia, particularly around the structural growth in water services and related technologies such as desalination and mobile water treatment. Both companies have been recently upweighted and are now top 10 holdings (discussed on page 8). Notably, both these European assets trade at significant discounts to their American peers.

Portfolio developments

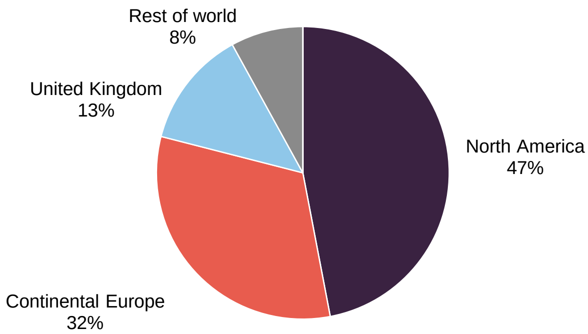
As Figures 5 and 6 show, there have been some changes to EGL's geographic allocations over the course of the year, with a notable reduction in North American exposure due to profit taking after a very strong period of performance for US utility holdings, which is offset by an increase in Europe. The UK has also seen a modest decrease. As is usually the case with EGL, these changes reflect stock choices, and an effort to capitalise on the increasingly attractive valuations in European infrastructure and utilities companies, which trade at around a 50% discount to their US peers.

Figure 5: Geographic allocation as at 30 November 2024



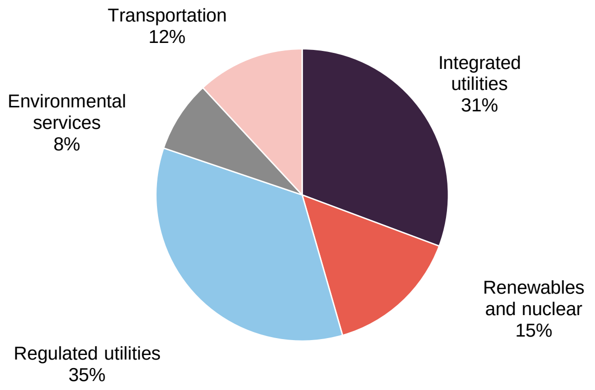
Source: Ecofin Global Utilities and Infrastructure Trust

Figure 6: Geographic allocation as at 31 December 2023



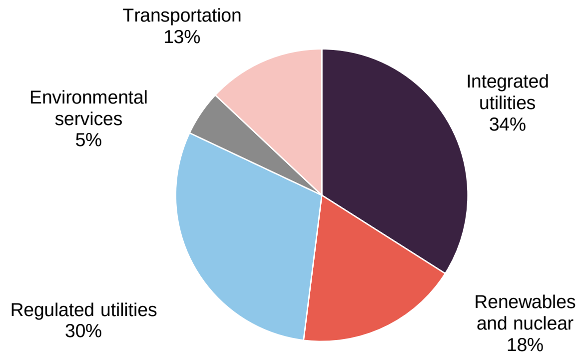
Source: Ecofin Global Utilities and Infrastructure Trust

Figure 7: Sectoral allocation as at 30 November 2024



Source: Ecofin Global Utilities and Infrastructure Trust

Figure 8: Sectoral allocation as at 31 December 2023



Source: Ecofin Global Utilities and Infrastructure Trust

Top 10 holdings

Since we last published, European energy distribution network operator E.ON and French transportation and infrastructure company Vinci have moved into the top 10, replacing utilities, American Electric Power and RWE.

Figure 9: Top 10 holdings as 31 October 2024

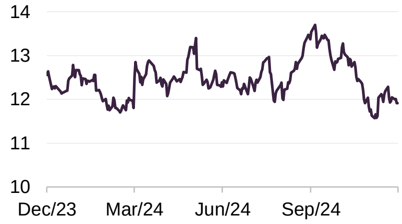
Holding	Sector	Country	Allocation 31 October 2024 (%)	Allocation 31 December 2023 (%)	Percentage point change
National Grid	Networks/Regulated	UK	4.8	4.5	0.3
NextEra Energy	Renewable energy	US	4.7	5.9	(0.8)
E.ON	Integrated utilities	Germany	4.2	2.2	2.0
Vinci	Transportation	France	4.0	2.1	1.9
Enel	Integrated utilities	Italy	4.0	4.4	(0.4)
SSE	Integrated utilities	UK	3.8	4.1	(0.3)
Veolia	Environmental services	France	3.7	1.6	2.1
Vistra	Integrated utilities	US	3.7	1.0	2.7
Constellation Energy	Nuclear	US	3.6	2.8	0.8
ENAV	Transportation	Italy	3.5	3.6	(0.1)
Total of top 10			40.0		

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

E.ON

E.ON is a good example of the attractive valuations on offer in the European market. The German integrated utility trades on a forward P/E of just 10.9, around a 20% discount to its European peers, and almost 40% to those based in the US. The company is one of EGL's more defensive positions, both from a valuation standpoint and in terms of its large, regulated asset base, which provides highly stable and visible earnings.

Figure 10: E.ON (EUR)



Source: Bloomberg

The company has undergone significant restructuring over the last few years, selling off much of its generation assets to focus on becoming a pure play network operator. It continues to make considerable investments in grid infrastructure development, recently announcing a 27% increase to its five-year investment target which now sits at €42bn. With the IEA's most recent World Energy Outlook predicting that global network infrastructure will need to be doubled, there is a massive opportunity for operators such as E.ON with the scale to capitalise on the level of development required. The company has delivered solid improvements in its profit outlook in recent years as its asset base expands and is expected to deliver annual EBITDA growth in the high single digits through to 2028.

Whilst fundamentally a defensive play, E.ON offers significant upside, particularly following the recent weakness in its shares as a result of German political uncertainty, which the managers have taken as an opportunity to add exposure. It trades on one of the most attractive valuations in the sector, with the manager noting that it appears to have slipped off other investors' radar since the sale of its generation assets. In addition, the company offers an attractive dividend yield of 4.7%.

Vinci

Figure 11: Vinci (EUR)

Source: Bloomberg

Vinci is a French-based developer and operator of global transport infrastructure concessions such as motorways and airports (including Gatwick and Edinburgh in the UK), energy infrastructure and construction around the world. The company is active in nearly 120 countries and has been in the portfolio for several years with the position being steadily increased, most recently in October, as the managers look to add exposure to high-quality European infrastructure.

Thanks to its diverse asset base, Vinci has been able to deliver reliable, annualised free cashflow growth of almost 12% over the last decade, an impressive feat given its scale, allowing it to consistently pay a dividend of around 4%. Despite this, the company trades on a forward earnings multiple of just 13. Although this reflects concerns around the impact of newly announced French taxes, and the expiry of some of its existing road tolls over the next decade, on balance its track record of stability and exposure to multiple secular growth markets comfortably offset these.

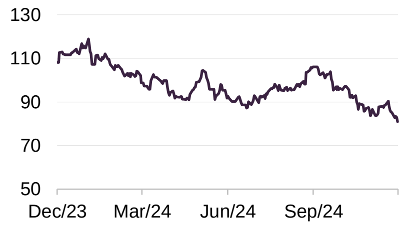
As noted, the company also provides an excellent hedge for business cycle risk going forward, with the bulk of its revenue attached to crucial infrastructure, while a more volatile inflation outlook would also be a positive given its ability to directly pass on rising costs to the consumer, making it a strong diversifier within EGL's portfolio.

Additional developments

The managers have been active in recent months, reducing gearing in the lead up to the US elections, and adjusting allocations to reflect relative performances across the company's universe. This included profit taking among US utilities which were strong performers for the first nine months of this year (including NextEra Energy, AEP, Constellation, Vistra, Edison).

In addition, new positions in Belgian power grid operator Elia and US environmental service provider, Waste Management were added.

Figure 12: Elia Group (EUR)



Source: Bloomberg

Elia Group

Elia is one of the largest power grid operators in Europe, increasing EGL's exposure to regulated networks on the continent and enabling it to capitalise on the rapidly growing demand for grid infrastructure development. The company's shares have been deeply depressed in recent years, falling almost 50% from their peak reached in 2022, with the regulated energy sector suffering from concerns around leverage, and the impact of regulatory adjustments.

Still, as the EGL managers highlight, Elia maintains one of the strongest asset base growth profiles amongst its peers and provides excellent exposure to the structural growth opportunities driven by the EU's climate targets, and the increase in total power demand which in Belgium is expected to double over the next 20 years.

Notably, power network infrastructure investments have increased dramatically in recent years, with capex expenditure plans suggesting spending in western Europe could rise to around $120bn in 2025 and $166bn in 2026, from just $60bn in 2024. This allows Elia and other regulated utility providers the ability to expand their assets, with Elia seen to be particularly well positioned given their access to external capital to drive their capex plans. This has already led to improvements in the company's profit outlook, and we believe there remains a long runway for growth.

Figure 13: Waste Management (USD)

Source: Bloomberg

Waste Management

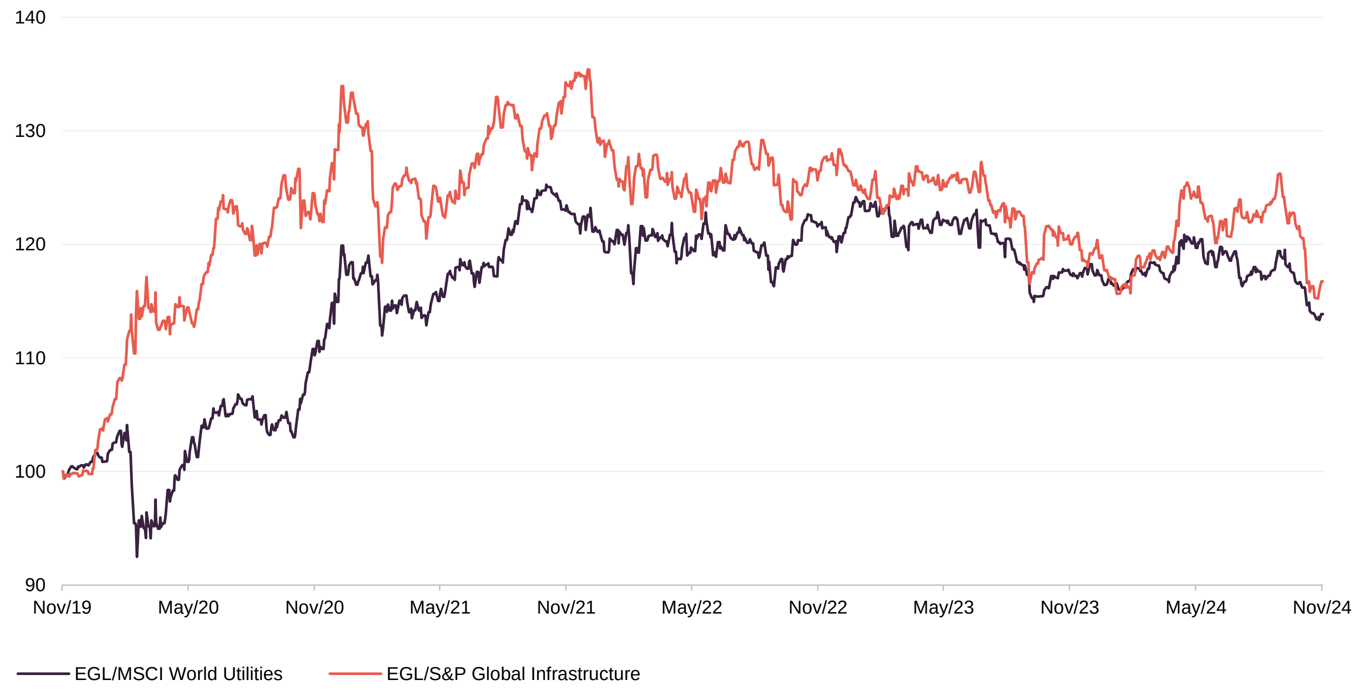
Waste Management is the largest garbage collection, transportation, processing, and disposal operator in the US. As we have noted, the company provides EGL with exposure to above-trend US growth, while allowing it to diversify away from some of the pure play US utilities that have performed strongly this year.

The company provides monopoly-like exposure to a sector which is relatively uncorrelated to broader market cycles. As with the majority of EGL's assets, it also provides highly predictable cash flows, and thanks to its scale and vertical integration, maintains considerable pricing power, insulating it from any re-inflation risks. A forward multiple of 27x earnings is a reflection of these dominant characteristics, with the managers noting that they are willing to pay up for high-quality assets when suitable.

The company stands to benefit from multiple positive structural drivers, including the significant increase in infrastructure spending in the US (discussed in our previous note) and an accelerating focus on sustainability and recycling. Operational improvements from industrial automation, fleet upgrades, and healthy M&A potential should provide additional upside.

Performance

Figure 14: EGL's NAV total return relative to benchmark indices, over five years to 30 November 2024



Source: Morningstar, Marten & Co

Figure 15: Cumulative total return performance over periods ending 30 November 2024

	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	From launch[1]	Volatility[2] (%)
EGL NAV	4.4	5.4	20.5	20.8	60.9	116.8	26.6
EGL share price	5.7	7.8	22.1	14.1	51.8	144.5	36.6
MSCI World Utilities	7.8	10.8	24.6	30.9	41.3	83.5	26.6
S&P Global Infrastructure	9.4	12.1	24.7	38.8	37.8	69.2	26.0
MSCI World	8.0	11.6	28.6	36.0	87.1	168.9	22.4
MSCI UK	(0.7)	1.8	15.2	34.1	36.5	64.3	25.2

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.

Annual Results to 30 September 2024

On 17 December, Ecofin Global Utilities and Infrastructure Trust (EGL) announced its annual results for the year ended 30 September 2024. The company delivered an impressive NAV total return of 25.9%. This was ahead of comparable infrastructure and utilities sector returns as well as that of the global MSCI all countries world index. This was achieved despite a significant headwind from sterling strength. The company's share price total return was 24.8%. Four quarterly dividends were paid during the period totalling 8.10p per share. Due to the board's confidence, the quarterly dividend will be increased by 3.7% to 2.125p per share (8.5p per share per annum) which is applicable from February 2025.

Discussing the performance, chairman David Simpson noted:

"Performance was positive across the utility, environmental services and transportation infrastructure portfolio segments during the year, and especially strong in the US. Stock selection was beneficial. The portfolio was well positioned for the recovery in share valuations of utilities and the resurgence in interest in nuclear power. With heightened market volatility, our investment manager also found opportunities to manage position sizes profitably. A modest level of gearing boosted underlying returns."

Trump effect

Having delivered impressive returns over the first 10 months of the year, the EGL portfolio hit a minor speedbump toward the end of October as rising bond yields and the potential impacts of a Trump presidency and Republican sweep weighed heavily on clean energy stocks and interest rate sensitive sectors of the market. As we have noted, clean energy benchmarks have dropped around 20% from the beginning of October as markets began to price in a Trump presidency, while the peak to trough drawdown was less than half, at around 10% for EGL, reflecting the benefits of its broad infrastructure and utilities diversification. Still, the fall was enough to take some of the shine off what has otherwise been an exceptionally good year.

YTD, EGL has delivered a NAV total return of 20.5% and a share price total return of 22.1% though to 30 November.

Even so, year to date, the company has delivered a NAV total return of 20.5% and a share price total return of 22.1% though to 30 November. This has been achieved despite the portfolio having significantly less in the US which now accounts for almost 70% of global equity indices.

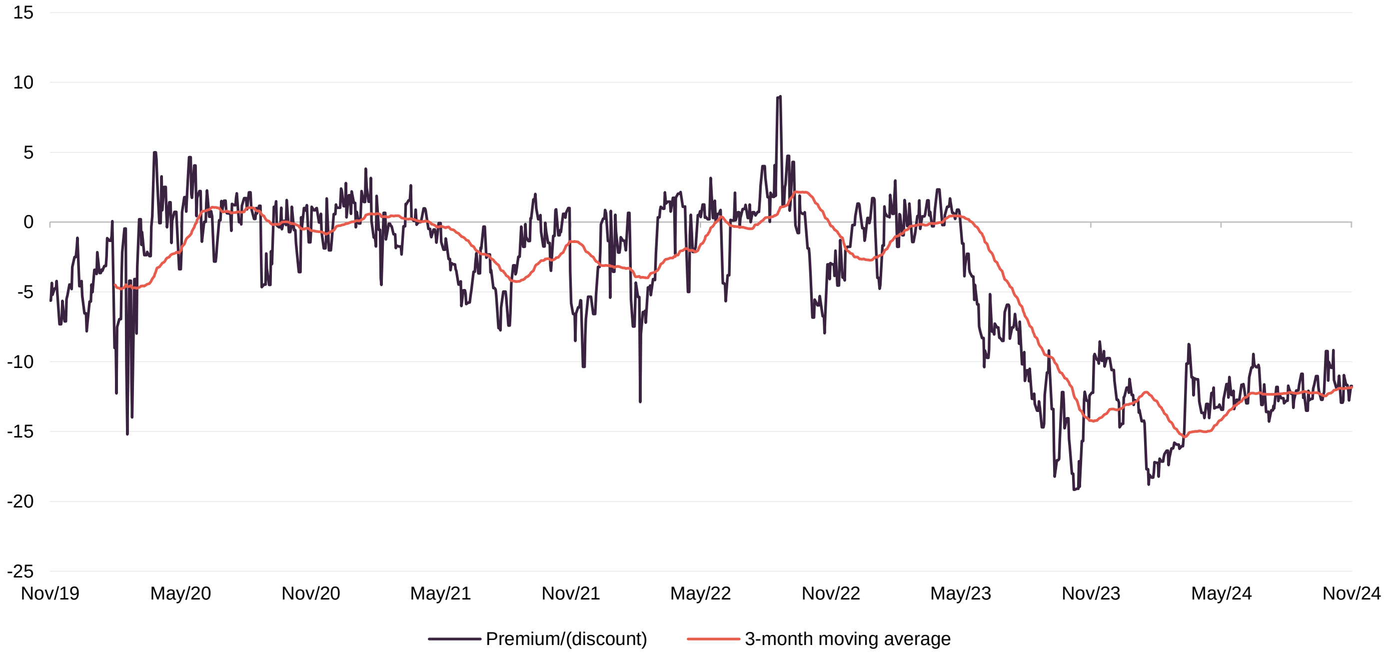
The recent weakness across the clean energy sector and EGL's relative underweight to oil and gas infrastructure, which has a significant weight in the S&P Global Infrastructure Index, has meant the company now trails marginally behind the global utilities and infrastructure benchmarks over the year to 30 November. Despite this modest underperformance, EGL has comfortably outperformed these indices over the long term, as highlighted in Figure 15.

As we have discussed, we believe the structural upside for power producers in both the US and abroad is still significant, while investments spread across the infrastructure and utilities sectors provide significant growth potential, especially considering the relative valuations of the EGL portfolio.

Premium/(discount)

Over the 12-month period ended 30 November 2024, EGL's shares have traded between an 18.8% and an 8.6% discount to NAV. The average over that period was a 13.2% discount. As of publishing, EGL was trading at an 16.01% discount.

Figure 16: EGL premium/(discount) over five years to 30 November 2024



Source: Morningstar, Marten & Co

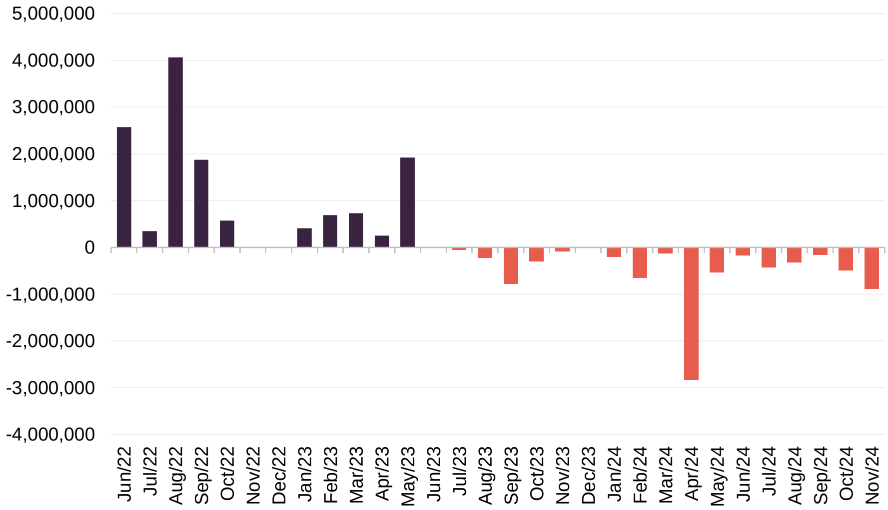
We continue to believe that the current 11.7% discount provides an excellent entry point for EGL. This is made even more attractive when accounting for the relative valuation of the portfolio compared to benchmark averages (highlighted on page 5).

It is easy to forget that the trust traded on a premium as recently as the beginning of 2023. Whilst some repricing was justified due to the structural increase in interest rates which followed, at the time we noted that the indiscriminate selling across the listed infrastructure and utilities sector – and in EGL in particular – had gone well beyond the mechanical impact of higher rates. Since then, the discount has struggled to recover despite the trust continuing to deliver excellent returns – as evidenced by its recent annual results. Positively, this selling has also created opportunities, and we have seen the manager be proactive, capitalising on depressed valuations in the sector and laying the foundation to continue its long track record of outperformance.

Share buybacks

As highlighted in Figure 16, having issued shares when they were trading at a small premium, the company has been steadily repurchasing shares since it began trading at a substantial discount. Over the last 12 months to 30 November 2024, it has repurchased almost 7m shares.

Figure 17: EGL share buybacks and issuance



Source: Marten & Co

Gearing

EGL's manager has traditionally been very calculated with the use of the company's gearing. This was increased over 2023 when utility valuations were depressed, reduced in the period before the US election, and had risen again to 14.8% as of 30 November 2024, with the company identifying opportunities to add new names and increase the weightings of a number of key holdings.

Dividend

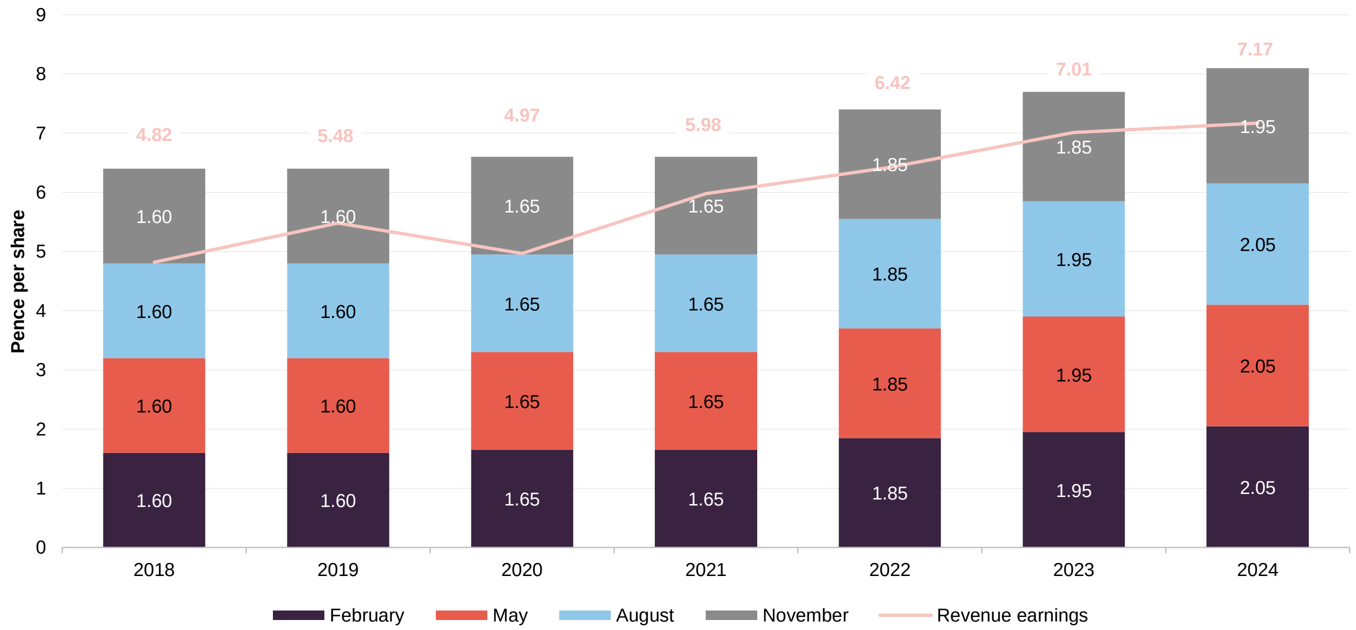
EGL is managed to strike a balance between capital growth and income, and whilst much of this note has focused on the portfolio's growth potential, it remains a reliable source of income for investors. EGL has tended to pay an uncovered dividend in recent years, supplementing its net revenue with modest amounts from its distributable reserves. These reserves remain substantial, amounting to £110m at the end of March 2024. Therefore, in our view, there is minimal likelihood that the board would feel it was unable to pay its target dividend.

The quarterly dividend will be increased by 3.7% to 2.125p per share (8.5p per share per annum) which is applicable from February 2025.

Supporting this is the growth of EGL's investment income, with revenue return per share growing strongly at a rate of almost 10% in recent years. For FY2024, the company paid a total dividend of 8.1 pence per share, an increase of around 5% on the previous year for a current yield of 4.69%.

Due to the board's confidence, the quarterly dividend will be increased by 3.7% to 2.125p per share (8.5p per share per annum) which is applicable from February 2025.

Figure 18: EGL revenue income and dividend by financial year



Source: Ecofin Global Utilities and Infrastructure Trust

Fund Profile

Further information regarding EGL can be found on the manager's website: https://www.redwheel.com/uk/en/individual/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.

On 1 October 2024, Redwheel completed the purchase of the assets of Ecofin Advisors, the investment manager of EGL. The Ecofin team has relocated to Redwheel's offices, but there are otherwise no changes to the investment strategy, process or Ecofin brand. Also effective from 1 October, the investment management fee was reduced to 0.9% p.a. of NAV on the first £200mn; 0.75% above £200m and up to £400m; and 0.6% thereafter.

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

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

- electric and gas utilities and renewable operators and developers – companies engaged in the generation, transmission and distribution of electricity, gas, liquid fuels and renewable energy;
- transportation – companies that own and/or operate roads, railways, 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. 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 and excludes transportation services and some environmental services that EGL invests in.

Previous publications

Figure 19: 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	Annual overview	22 August 2023
Strong outlook as macro gloom lifts	Annual overview	23 January 2024
Momentum building	Update	12 June 2024

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