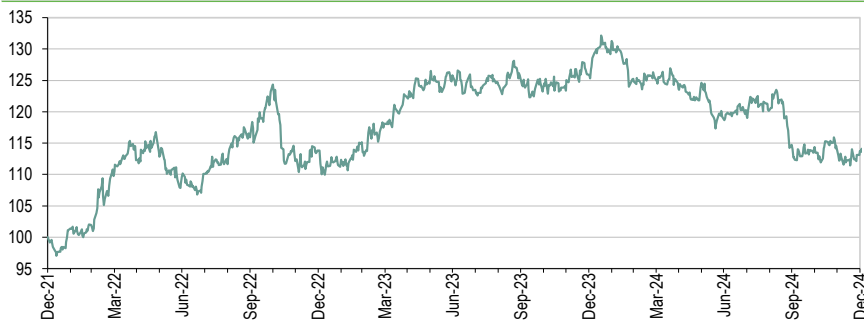


Utilico Emerging Markets Trust

Dedicated focus drives long-term outperformance

Utilico Emerging Markets Trust's (UEM's) managers Charles Jillings and Jacqueline Broers remain very upbeat about the long-term prospects for emerging market equities. They consider that, in aggregate, corporates are continuing to deliver robust earnings growth despite an uncertain macroeconomic environment. The nature of the trust's investments in well managed, cash-generative infrastructure and utility assets means that UEM's portfolio should be relatively resilient during periods of economic or stock market weakness. Since inception in 2005 until the end of December 2024, the trust's NAV total return has compounded at 8.9% per year.

NAV outperformance vs the MSCI EM Index over the last three years



Source: LSEG Data & Analytics, Edison Investment Research

Why consider UEM?

Although the MSCI Emerging Markets Index is used as a reference, its composition is very different from UEM's unique collection of high-quality emerging market infrastructure and utility assets. The trust's largest country exposures are Brazil and China including Hong Kong, while its largest industry exposures are electricity and ports. The managers and their team are very experienced in their field and travel extensively to fully understand current and potential portfolio companies and the industries and countries in which they operate.

Each of the trust's holdings is classified under one of four megatrends that the managers have identified as a driver of emerging market growth: social infrastructure (infra), digital infra, energy growth & transition and global trade. UEM's portfolio is fully invested, and the managers have a long-term horizon, allowing value to accrue over time, while not being distracted by short-term stock market noise. However, the fund is actively managed; positions are sold when there is a change in the investment thesis, maybe due to an unforeseen development in the regulatory environment or when a business becomes fully valued.

UEM's last announced quarterly dividend of 2.325p per share was a step up from the prior eight quarters of 2.15p per share and the annual distribution is fully covered. In line with other investment companies, in an environment of above-average risk aversion, UEM's discount is wider than its three-, five- and 10-year historical averages. Coupled with its defensive portfolio (beta of c 0.8) and 4%+ dividend yield, it now looks like an interesting opportunity for both new and existing shareholders. When sentiment shifts, there is scope for UEM to trade on a much narrower discount.

Investment companies
Emerging market equities

15 January 2025

Price	214.00p
Market cap	£400m
Total assets	£503m
NAV	256.5p
¹ At 13 January 2025	
Discount to NAV	16.6%
Current yield	4.1%
Shares in issue	186.9m
Code/ISIN	UEM/GB00BD45S967
Primary exchange	LSE
AIC sector	Global Emerging Markets
52-week high/low	235.0p / 200.0p
NAV high/low	281.6p / 253.8p
Net gearing	4.9%

¹At 31 December 2024.

Fund objective

Utilico Emerging Markets Trust's investment objective is to provide long-term total returns by investing predominantly in infrastructure, utility and related equities, mainly in emerging markets.

Bull points

- Specialist fund investing in high-quality emerging market companies.
- Progressive dividend policy and attractive yield.
- Higher economic growth and lower valuations in emerging versus developed markets.

Bear points

- Discount is persistently wider than board's desired level of less than 10%.
- The MSCI Emerging Markets Infrastructure and Utility indices have underperformed the MSCI Emerging Markets Index over the long term.
- Emerging market indices can be more volatile than those in developed markets.

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UEM: Outperformance from emerging market specialist

UEM is a unique fund, specialising in emerging markets infrastructure and utility companies, most of which are asset backed and more than 95% are operational. Due to the nature of the assets held, the portfolio has a low beta (c 0.8). More than 80% of the trust's portfolio companies pay dividends, which supports UEM's progressive dividend policy. The trust has a long-term record of outperformance. Since inception in July 2005 until 31 December 2024, UEM's +8.9% annual NAV (+424.3% absolute) total return was meaningfully ahead of the MSCI Emerging Markets Index's +7.4% annual (+304.2% absolute) total return.

On 2 January 2025, UEM's board announced the appointment of Jacqueline Broers as joint portfolio manager alongside Jillings with immediate effect. Broers has been involved with the management of UEM since joining specialist asset manager ICM in 2010 and was appointed as the trust's deputy portfolio manager in 2021.

The case for emerging markets

Jillings and Broers are very positive on the long-term prospects for emerging markets based on structural growth drivers, global infra megatrends and attractive valuations.

Structural growth drivers in emerging markets include: positive demographics as young and growing populations move up the education curve; ongoing urbanisation leading to increased demand for infrastructure assets; a rising middle class with increasing levels of disposable income; and strong GDP growth, which is supported by government investment in infrastructure projects.

The four global growth megatrends on which the managers and their team focus are: **social infra**, which includes social infrastructure such as sanitation, water supply and transportation networks; **energy growth & transition** such as investment in energy infrastructure including wind, solar and hydroelectric, which is required to support economic growth and increase energy security; **digital infra** as digital connectivity investment is occurring very rapidly and hence is driving strong demand for data centres; and **global trade**, where the shift in supply chains is expected to continue regardless of US President Trump's trade policies. The managers believe that these four megatrends will be a huge tailwind for UEM's portfolio for at least the next decade and beyond.

Emerging market equities look inexpensive in both absolute and relative terms. On a cyclically adjusted P/E multiple basis, emerging markets are trading around 13x, which is in line with their long-term average, while the US S&P 500 is trading on 34x versus its c 27x long-term average.

Highlights from H125 (ending 30 September 2024)

Performance: NAV and share price total returns of -1.4% and +0.1% respectively trailed the MSCI Emerging Markets Index's +7.5% total return. With UEM's largest exposure to Brazil, performance was negatively affected by the 13.4% depreciation of the Brazilian real versus sterling over the six-month period. There was also a negative revaluation of the holding in Petalite.

Unlisted investments: during H125, the carrying value of Petalite was reduced by 58.1% to reflect a challenging electric vehicle market. In aggregate, UEM's unlisted investments were 3.2% of the portfolio at 30 September 2024 versus 4.5% at 31 March 2024.

Revenue and dividends: revenue per share was 6.54p versus 5.95p in H123, an increase of 9.9%. So far in respect of FY25, two fully covered dividends have been declared: 2.15p per share and a higher 2.325p per share, representing a 4.1% increase in the H1 year-on-year distribution. The board is anticipating that the higher rate will continue for the rest of FY25, which would equate to an increase of 6.1% in the total annual dividend. At the end of H125, UEM had revenue reserves of 7.64p per share, which is c 0.9x the last annual dividend payment.

Share repurchases: with industry discounts remaining stubbornly high, the board has continued to buy back UEM's shares. During H125, approximately 2.9m shares were repurchased, which added 0.3% to the trust's NAV total return.

Gearing: during H125, the board signed a £50m secured, multicurrency revolving credit facility agreement with Barclays Bank. The initial term is one year, which may be extended if agreed by both parties. At the end of December 2024, £24.4m was drawn down.

The board: chairman John Rennocks retired on 31 December 2024 and was replaced by former senior independent director Mark Bridgeman. Isabel Liu is now the senior independent director. On 1 September 2024, Nadya Wells joined

the board as an independent non-executive director. She has more than 25 years of emerging markets investment experience, having spent 13 years with Capital Group as a portfolio manager and formerly as a portfolio manager at Invesco Asset Management investing in Eastern Europe.

Portfolio breakdown

UEM's portfolio has around 70 holdings and annual turnover is c 25%. At the end of December 2024, UEM's top 10 positions made up 37.3% of the portfolio, which was a higher concentration versus 34.3% a year earlier.

Exhibit 1: Top 10 holdings (at 31 December 2024)

Company	Country	Industry	Megatrend	Portfolio weight	
				Dec-24	Dec-23
FPT Corporation	Vietnam	Data services	Digital infra	5.9	3.1
Int'l Container Terminal Services	Philippines	Ports operator	Global trade	5.3	4.5
Alupar Investimento	Brazil	Electricity transmission & generation	Energy growth & transition	3.5	4.6
Santos Brasil Participações	Brazil	Port operator	Global trade	3.5	2.4
IndiaGrid Infrastructure Trust	India	Electricity transmission	Energy growth & transition	3.4	2.5
InPost	Poland	Logistics operator	Digital infra	3.2	2.5
Orizon Valorização de Resíduos	Brazil	Waste treatment	Social infra	3.2	3.8
Manilla Water Company	Philippines	Water	Social infra	3.2	N/A
Sabesp*	Brazil	Water & waste treatment	Social infra	3.1	1.6
Kunlun Energy Company	China	Gas Transmission	Energy growth & transition	3.0	1.9
Total				37.3	34.3

Source: UEM, Edison Investment Research. Note: N/A is not in December 2023 top 30. *Companhia de Saneamento Básico do Estado de São Paulo.

All four of the growth megatrends were represented in the trust's largest holdings. Below we highlight the total fund breakdown at the end of December 2024, along with an example of a current portfolio holding:

- **Social infra** (31.4%): TAV Havalimanlari Holding is a Turkey-listed airport operator, with 15 airports in eight countries (including five in Turkey). The company also provides airport services including duty free and ground operations to 210 airports in 33 countries. TAV is benefiting from rising passenger numbers, which could reach 7–10% annual volume growth over the next five years. The company has a strong corporate governance culture, is 46.1% owned by Groupe ADP and attractively valued compared with its global peers.
- **Digital infra** (24.9%): Societe Nationale des Telecommunications du Senegal (Sonatel) is the leading telecoms operator in Senegal and neighbouring countries. It has more than 40 million customers with rapid growth in 4G data, fibre broadband and mobile payments, where penetration remains relatively low. Sonatel is supported by Orange, its largest shareholder, and the majority of its revenues are pegged to the euro. The company generates strong cash flows and has an attractive c 6.5% dividend yield.
- **Energy growth & transition** (24.4%): IndiaGrid Infrastructure Trust develops and operates power transmission lines and generates solar power. The company is benefiting from India's rising power demand and the transition to green energy. IndiaGrid is a strong operator, nearing 100% availability on its transmission lines. Long-term contracts provide good business visibility and reliable cash flows and 90% of net cash flows are paid out to investors via quarterly distributions; the trust offers a c 10% dividend yield.
- **Global trade** (19.3%): International Container Terminal Services (ICT) is a Philippines company which acquires, develops, manages and operates small- to medium-sized container ports and terminals (33 terminals in 20 countries). ICT has long-term concessions and is benefiting from economic growth in emerging markets. Its strategy focuses on the acquisition of underperforming ports, which have scope for operational improvements and margin expansion. ICT has been in the portfolio since day one and over the last decade has regularly been one of the largest holdings in the fund.

UEM's portfolio breakdowns by geography and sector at the end of December 2024 are shown in Exhibits 2 and 3. It should be remembered that given the trust's specialist mandate and active bottom-up stock selection, its exposures are very different to those in the MSCI Emerging Markets Index. For example, the trust has a relatively low exposure to China and a very high utilities allocation. Jillings and Broers reiterate that one of the primary stock section criteria is stable, long-term cash flow generation.

A year-on-year comparison is not straightforward because some elements are not stated separately. As an example in December 2023, ports and logistics were combined but now have individual classifications. Where numbers are comparable in the 12 months to the end of December 2024, there are notable lower weightings in electricity (-7.4pp) and renewables (-5.2pp) with a higher allocation to water & waste (+4.4pp).

Exhibit 2: Portfolio geographic exposure (%)

	Portfolio end		Change (pp)
	Dec-24	Dec-23	
Brazil	22	25	(3)
China incl. Hong Kong	13	12	1
Vietnam	12	8	4
Other Europe	11	16	(6)
The Philippines	9	5	4
Middle East/Africa	8	6	2
Other Asia	7	6	0
India	6	11	(5)
Other Latin America	6	11	(6)
Poland	4	N/S	N/A
Chile	4	N/S	N/A
	100	100	

Source: UEM, Edison Investment research. Note: N/S is not stated separately.

Exhibit 3: Portfolio industry exposure (%)

	Portfolio end		Change (pp)
	Dec-24	Dec-23	
Electricity	14.8	22.2	(7.4)
Ports	14.2	N/S	N/A
Data serv & digital infra	13.8	11.0	2.8
Water & waste	12.1	7.7	4.4
Airports	7.9	4.7	3.2
Logistics	7.0	N/S	N/A
Gas	6.3	7.3	(1.0)
Telecoms	6.1	5.9	0.2
Renewables	5.3	10.5	(5.2)
Infrastructure inv funds	5.0	N/S	N/A
Other	3.9	7.7	(3.8)
Road & rail	3.6	4.5	(0.9)
	100.0	100.0	

Source: UEM, Edison Investment Research. Note: N/S is not stated separately.

The managers highlight the resilience of UEM's portfolio of essential infrastructure and utility assets. While inflation has been challenging in recent years, utility contracts generally have price escalation clauses. Also, emerging market countries are used to dealing with inflation pressures, while their balance sheets are in better shape than they were in the past, helped by lower debt levels and borrowing in local currencies rather than incurring foreign exchange risk by borrowing in US dollars. Some of UEM's investee companies operate monopolistic businesses, such as Brazilian railroad operator Rumo which, as the sole operator on some of its routes, is benefiting from pricing flexibility as well as volume growth.

Jillings and Broers believe that emerging market corporates can continue to deliver strong earnings growth despite an uncertain macroeconomic environment, where issues include US President Trump's trade policies, elevated geopolitical tensions and Chinese economic weakness. More importantly, the managers believe that UEM's portfolio should not be unduly disrupted given investee companies' robust cash flow generation and strong management teams that can generate above-average growth and returns.

Performance: Ahead of the reference index over three years

There are 10 funds in the AIC Global Emerging Markets sector, which include those with generalist and those with a more specialised mandate, such as UEM. The trust's NAV total returns are above average over the last three, five and 10 years, ranking second out of nine, fourth out of nine and six out of eight funds, respectively. UEM's performance does not take the dilutive effect of its historical subscription shares before February 2018 into account. The trust currently has the widest discount, an ongoing charge that is in line with the mean and is one of five funds that is geared. UEM has an attractive dividend yield, ranking second and 1.7pp above the sector average.

Exhibit 4: AIC Global Emerging Markets sector at 13 January 2025*

% unless stated	Market cap (£m)	NAV TR				Discount (cum-fair)	Ongoing charge	Performance fee	Net gearing	Dividend yield
		1 year	3 year	5 year	10 year					
Utilico Emerging Markets	400.1	(0.4)	20.2	15.5	70.6	(18.0)	1.5	No	105	4.1
Ashoka WhiteOak Emerging Markets	41.0	16.3				2.0	1.9	Yes	100	0.0
Barings Emerging EMEA Opportunities	74.0	16.4	(8.6)	(14.3)	82.4	(16.2)	1.7	No	100	2.7
BlackRock Frontiers	297.2	10.8	34.8	57.4	123.9	(5.9)	1.4	Yes	117	4.8
Fidelity Emerging Markets	475.5	12.5	(10.3)	(8.7)	50.4	(11.3)	0.8	No	100	2.2
JPMorgan Emerg Europe, ME & Africa	77.4	44.6	(92.4)	(92.5)	(73.9)	238.8	3.2	No	100	0.3
JPMorgan Emerging Markets	1,150.5	11.1	(3.8)	13.6	110.6	(13.7)	0.8	No	103	1.8
JPMorgan Global Emerg Mkts Income	383.0	14.2	7.7	24.7	93.9	(12.2)	1.0	No	108	4.0
Mobius Investment Trust	165.6	7.5	8.5	57.3		(6.9)	1.4	No	100	0.9
Templeton Emerging Markets Inv Trust	1,719.0	16.5	4.8	13.2	86.5	(14.4)	1.0	No	101	3.0
Simple average	478.3	15.0	(4.4)	7.4	68.1	14.2	1.5		103	2.4
UEM rank out of 10 funds	4	10	2	4	6	10	4		3	2

Source: Morningstar, Edison Investment Research. Note: *Performance data at 13 January 2025 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net

Exhibit 5: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	MSCI Emerging Markets (%)	MSCI EM Utilities (%)	CBOE UK All Companies (%)
31/12/20	(14.4)	(10.7)	15.0	(7.7)	(10.9)
31/12/21	12.7	12.0	(1.3)	14.3	18.4
31/12/22	2.7	2.9	(9.6)	7.9	1.6
31/12/23	14.0	15.2	4.0	(3.0)	7.6
31/12/24	(3.1)	(0.7)	10.0	5.5	9.9

Source: LSEG Data & Analytics. Note: All % on a total return basis in pounds sterling.

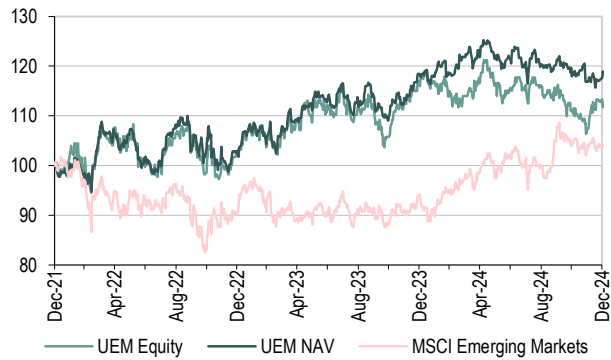
Exhibit 6: Share price and NAV TR performance, relative to indices (%)

	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Price relative to MSCI Emerging Markets	5.0	0.6	(2.8)	(11.9)	9.6	(6.9)	(9.3)
NAV relative to MSCI Emerging Markets	(0.7)	(0.9)	(4.6)	(9.7)	13.8	0.2	(5.1)
Price relative to MSCI EM Utilities	5.6	7.8	3.7	(8.2)	2.7	(6.1)	21.2
NAV relative to MSCI EM Utilities	(0.2)	6.2	1.8	(5.8)	6.6	1.1	26.9
Price relative to CBOE UK All Companies	8.1	(0.5)	(3.9)	(11.8)	(5.7)	(13.8)	(8.2)
NAV relative to CBOE UK All Companies	2.1	(1.9)	(5.6)	(9.6)	(2.1)	(7.2)	(3.9)

Source: LSEG Data & Analytics, Edison Investment Research. Note: Data to end December 2024. Geometric calculation.

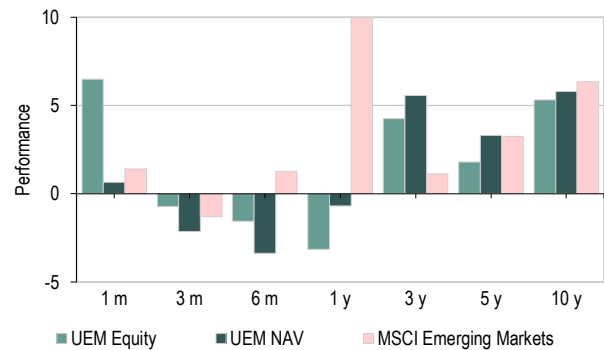
Exhibit 6 shows UEM's relative performance. Its NAV is meaningfully ahead of the MSCI Emerging Markets reference index over the last three years, and modestly ahead over the last five years.

Exhibit 7: Performance to 31 December 2024, three-year rebased



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 8: Price, NAV and Index TR performance (%)



Source: LSEG Data & Analytics, Edison Investment Research. Note: Three-, five- and 10-year figures annualised.

Exhibit 9: NAV total return performance versus MSCI Emerging Markets Index over 10 years

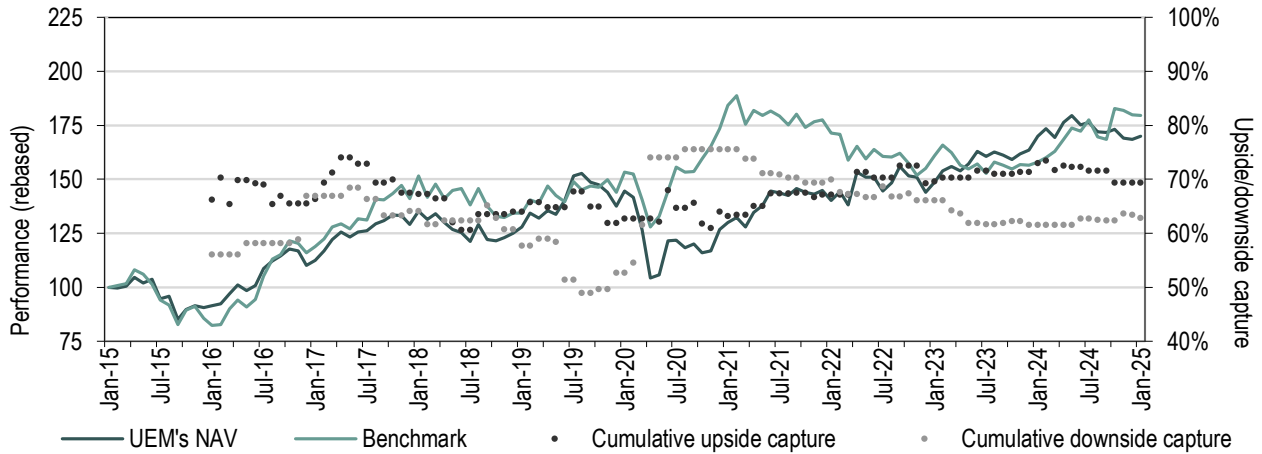


Source: LSEG Data & Analytics, Edison Investment Research

UEM's upside/downside analysis

UEM offers a specialised yet defensive exposure to emerging markets. In Exhibit 10, we show the trust's upside/downside capture over the last decade. In months when emerging market stocks rose, on average, UEM captured 69% of the upside, whereas in months when emerging markets declined, the trust captured just 63% of the downside.

Exhibit 10: UEM's upside/downside capture



Source: LSEG Data & Analytics, Edison Investment Research

Note: Cumulative upside/downside capture calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the chart due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

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