

UIL

Working towards a 2028 privatisation

On 8 October 2024, UIL Limited (UIL) announced plans to take the company private after the redemption of the 2028 zero dividend preference (ZDP) shares. UIL's board has decided that despite holding a selection of potentially exciting investments, recent disappointing performance has meant that the company no longer has the scale to build up a sufficiently diversified portfolio. Also, given that UIL has a limited free float, there is not enough liquidity in its ordinary shares, and its broad investment mandate is out of favour with investors. Therefore, the company will be taken private and its stock exchange listings cancelled following the redemption of the October 2028 ZDP shares. In the absence of unforeseen circumstances, the annual dividend of 8.0p per share will continue to be paid while UIL remains a listed company.

UIL's portfolio holds a range of interesting opportunities; however, without sufficient scale and liquidity, the investment managers, UIL's majority shareholder and the board have decided to take the company private. UIL will be managed over the next four years with a view to realising sufficient capital to enable the redemption of the 2028 ZDP shares and UIL's minority shareholders to exit.

It is also proposed to simplify the platform structures. This is likely to result in both Somers and Zeta Resources, being merged into UIL. These consolidations will occur on an NAV-to-NAV basis and, as referred to below, the process to acquire all the shares of Zeta has recently been completed. The mergers will increase UIL's asset base but decrease the percentage of UIL's share base held by minority holders due to UIL's majority shareholder's current holdings in Somers and Zeta.

UIL also aims to provide an annual cost-effective opportunity for minority shareholders to exit a significant proportion of their shares at a c 20% discount to NAV. Starting in H225, this will provide liquidity for minority shareholders before the 2028 privatisation, while UIL also plans to continue market buybacks of its ordinary and ZDP shares. These actions are designed to improve liquidity in UIL's shares, provide a wider choice for ordinary shareholders to exit, while maintaining a dividend yield until 2028 for shareholders who prefer regular income. They also provide improved asset cover for the outstanding ZDP shareholders.

On 10 October 2024, UIL announced that it had acquired the Zeta shares held by General Provincial Life Pension Fund (GPLPF) at NAV (£28.7m in aggregate), satisfied through the transfer to GPLPF of UIL's investment in Allectus Capital at its latest valuation and the issue of new UIL ordinary shares at NAV. As a result, UIL held over 95% of Zeta and gave notice to acquire the remaining Zeta shares by compulsory acquisition at NAV. The compulsory acquisition completed on 16 October 2024 at which point Zeta became a 100% subsidiary of UIL.

UIL trades on a wide discount to NAV of c 39%. Also, a UIL investor has historically received a 'double discount'; for example, at the end of September 2024, [Utilico Emerging Markets Trust](#) (c 9% of the portfolio) was trading at a 18.4% discount to NAV. With Zeta becoming a 100% subsidiary of UIL, UIL announced that, effective 11 October 2024, the company now accounts for its investment in Zeta at its underlying NAV per share.

Investment companies Global value

22 October 2024

Price 102.0p
Market cap £95m
Total assets £262m

NAV* 167.0p
 Discount to NAV 38.9%

*Including income. At 18 October 2024.

Yield 7.8%

Ordinary shares in issue 93.3m

Code/ISIN UTL/BMG917071026

Primary exchange LSE

AIC sector Flexible Investment

Financial year end 30 June

52-week high/low 132.0p 96.0p

NAV* high/low 207.2p 149.7p

*Including income

Net gearing* 82.9%

*Including zero dividend preference (ZDP) shares.
 At 30 September 2024.

Fund objective

UIL's objective is to maximise shareholder returns by identifying and investing in investments worldwide where the estimated underlying value is not fully recognised. The company's investment performance is benchmarked against the broad UK equity market. UIL is a member of the AIC flexible investment sector.

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[Edison profile page](#)

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Recent developments

10 October 2024: Acquisition of shares in Zeta Resources

As part of UIL's process to simplify the platform structure, the company entered into a sale and purchase agreement with GPLPF (which owned 65.5% of UIL's ordinary shares) to acquire its holding of c 187.6m ordinary Zeta shares. This resulted in UIL holding 95.03% of Zeta's share capital; Zeta's remaining shares were then acquired under a compulsory acquisition process, which completed on 16 October 2024.

The purchase of GPLPF's Zeta shares (valued at c £28.7m) was funded by the transfer of UIL's investment in Allectus Capital (valued at c £12.8m) and the issue of c 9.5m new UIL ordinary shares at £1.6655 per share (valued at c £15.9m). The transactions were based on valuations at 8 October 2024.

UIL's new shares commenced trading on the Specialist Funds Segment of the Main Market of the London Stock Exchange on 14 October 2024. GPLPF now owns 69.0% of UIL's share base.

UIL: A unique global portfolio of undervalued assets

UIL holds a collection of undervalued assets. Since launch, the company's NAV has compounded at an annual rate of 6.2%. Stocks are selected on a bottom-up basis following thorough fundamental research, taking into account manager Charles Jillings' three medium-term views: the world's financial markets are over-indebted; technological change offers strong investment upside; and emerging markets offer better GDP growth opportunities than developed markets. UIL's portfolio is affected by a series of macroeconomic trends:

- Geopolitics and global trade – geopolitical tensions and rising nationalism are leading to increased protectionism, resulting in export restrictions and reassessment of supply chains. This has led to increased onshoring, nearshoring and friendshoring. Emerging market countries are an increasingly larger percentage of global trade.
- Resources and energy growth and transition – higher energy demand requires ongoing investment in energy infrastructure, while geopolitical tensions are focusing attention on energy security. Climate change is driving increasing appetite for renewable energy, which in turn drives demand for certain commodities such as copper and lithium.
- Growth of emerging markets – this is supported by structural growth drivers including positive demographic trends, increasing urbanisation, an expanding middle class with higher levels of disposable income and infrastructure spending.
- Digitalisation – growth of AI and increased processing capacity is accelerating innovation across a range of industries. There is more connectivity due to the roll-out of 5G and full-fibre broadband.
- Fintech – traditional financial service businesses are being disintermediated by innovative fintech solutions. There is also high demand for newer products such as buy now/pay later and growth in e-commerce. An ageing global population is forcing governments to transfer financial responsibility from the state to the individual.

Portfolio positioning

Top 10 holdings

At end-September 2024, UIL's top 10 holdings made up 96.2% of the fund, which was a marginally higher concentration compared with 94.4% a year earlier; eight positions were common to both

periods. However, UIL's portfolio is more diversified as three of the top 10 holdings were platforms with portfolios of underlying investments (see below).

On a look-through basis, at the end of September 2024, UIL's top 10 positions made up 67.7% of the fund, with the top 20 at 78.7% and the top 50 at 91.1%. The three largest holdings were Resimac (25.1%, held by UIL and Somers), L&C Waverton (8.7%, Somers) and Koumbia Bauxite Investments (6.9%, Zeta Resources). The total number of positions including the platforms is around 25 and c 13% of the fund is held in unlisted investments (excluding loans to listed companies and listed companies classed as level 3 investments, which are valued using inputs that are not based on observable market data).

Exhibit 1: Top 10 holdings (at 30 September 2024)				
Company	Country*	Sector	Portfolio weight %	
			30 Sept 2024	30 Sept 2023**
Somers	Bermuda	Financial services investment holding co	46.0	36.4
Zeta Resources	Australia	Resources investment company	15.5	17.4
Utilico Emerging Markets Trust	UK	Emerging markets investment trust	8.6	11.1
Resimac Group	Australia	Financial services	7.0	5.9
Allectus Quantum Holdings	UK	Investment holding company	5.7	4.9
Allectus Capital	Bermuda	Fintech investment company	5.3	6.3
West Hamilton Holdings	Bermuda	Property	2.7	5.6
The Market	Australia	Financial services	2.3	2.9
Carebook Technologies	Canada	Technology	1.8	N/A
WT Financial Group	Australia	Financial services	1.3	N/A
Top 10 (% of portfolio)			96.2	94.4

Source: UIL, Edison Investment Research. Note: *Country of listing or domicile. **N/A where not in end-September 2023 top 10.

UIL's platform investments

At 30 September 2024, UIL had three platform investments. However, as referred to above, during October 2024, Zeta was merged with UIL and Allectus Capital was transferred to GPLPF. Also, during FY24, around half the holding in Utilico Emerging Markets was sold, so this company is now classed as a direct rather than a platform investment. Consequently, there is now just one platform, Somers, which, as referred to above, will likely be merged into UIL in due course.

Exhibit 2: UIL's remaining platform			
Platform		Country*	(%)
Somers	Top five holdings at 31 March 2024		
L&C Waverton	A specialist investment manager focusing on discretionary portfolio management for private clients, charities and institutions plus a suite of in-house managed investment funds.	UK	41.6
Resimac Group	A leading residential mortgage lender and multichannel distribution business specialising in prime and specialist mortgage lending.	Australia	34.1
ICM Mobility Group	An unlisted company focusing on the mobility sector, covering private and public transport.	UK	10.9
AK Jensen Group	A global brokerage business, providing hedge fund services to traditional hedge funds and digital asset funds.	Bermuda	6.2
Mana Capital	Offers tailored leasing solutions for technology assets, plant and equipment to New Zealand public sector organisations and large corporates.	New Zealand	0.9
Total:			93.7

Source: UIL, Edison Investment Research. Note: *Country of listing or domicile.

Geographic and sector breakdowns

UIL's unconventional look-through geographic and sector exposures are shown in Exhibits 3 and 4. Over the 12 months to the end of September 2024, the main changes were a higher Australia weighting (+9.3pp) and a lower allocation to the UK (-8.9pp), while there was a higher weighting in financial services businesses (+8.3pp).

Exhibit 3: Portfolio geographic exposure on a look-through basis (% unless stated)

	Portfolio end-Sept 2024	Portfolio end-Sept 2023	Change (pp)
Australia	48.3	39.0	9.3
UK	10.9	19.8	(8.9)
Europe (ex-UK)	8.3	5.1	3.2
Bermuda	8.2	10.4	(2.2)
Middle East/Africa	7.8	9.6	(1.8)
Asia	6.2	5.4	0.8
Latin America	3.0	3.8	(0.8)
US	3.4	3.4	0.0
Canada	2.5	2.2	0.3
New Zealand	1.4	1.3	0.1
Total	100.0	100.0	

Source: UIL, Edison Investment Research

Exhibit 4: Portfolio sector exposure on a look-through basis (% unless stated)

	Portfolio end-Sept 2024	Portfolio end-Sept 2023	Change (pp)
Financial services	50.2	41.9	8.3
Technology	22.4	24.2	(1.8)
Resources	9.6	13.6	(4.0)
Gold mining	5.9	3.8	2.1
Ports	2.2	2.6	(0.4)
Electricity	1.4	2.2	(0.8)
Water	1.3	0.9	0.4
Renewables	1.0	1.6	(0.6)
Airports	0.6	0.6	0.0
Telecommunications	0.5	0.6	(0.1)
Oil and gas	0.5	0.8	(0.3)
Infrastructure investments	0.4	0.5	(0.1)
Other	4.0	6.7	(2.7)
Total	100.0	100.0	

Source: UIL, Edison Investment Research

Performance: A somewhat disappointing FY24

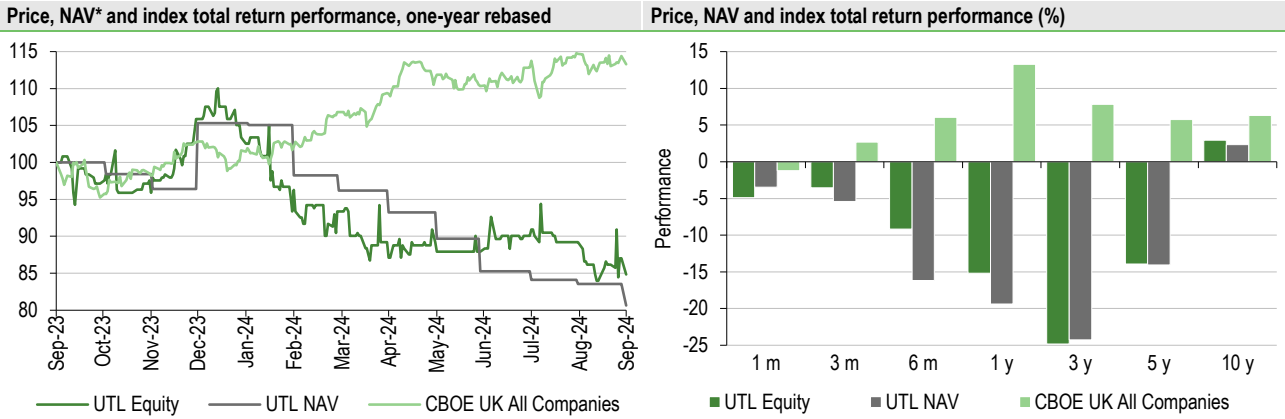
In FY24 (ending 30 June) UIL's NAV and share price total returns of -15.3% and -24.8%, respectively, trailed the UK market's +13.0% total return.

The performance of UIL's top 10 holdings during the financial year were: Somers (valuation +0.4%); Zeta Resources (share price -18.0%, falling nickel prices); Utilico Emerging Markets Trust (share price -0.9%); Resimac (share price -2.3%); Allectus Quantum Holdings (valuation +0.1%); Allectus Capital (valuation -40.9%, slowdown in financing rounds and increased pricing pressure); West Hamilton Holdings (valuation +2.7%); The Market (share price -48.3%, a costlier and longer-than-expected IT migration and a global reduction in advertising spend); Carebook Technologies (share price -21.4%, exploring five growth strategies); and WT Financial (share price -3.8%).

Exhibit 5: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to CBOE UK All Companies	(3.7)	(6.1)	(14.4)	(25.1)	(66.1)	(64.3)	(27.6)
NAV relative to CBOE UK All Companies	(2.3)	(7.9)	(20.9)	(28.8)	(65.3)	(64.5)	(31.5)
Price relative to MSCI AC World	(5.2)	(4.1)	(12.3)	(29.6)	(67.0)	(71.7)	(57.2)
NAV relative to MSCI AC World	(3.7)	(5.9)	(19.0)	(33.0)	(66.2)	(72.0)	(59.6)
Price relative to MSCI Emerging Markets	(9.1)	(6.0)	(15.7)	(26.3)	(58.8)	(61.8)	(28.3)
NAV relative to MSCI Emerging Markets	(7.7)	(7.8)	(22.2)	(30.0)	(57.8)	(62.2)	(32.3)

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

Exhibit 6: Investment company performance to 30 September 2024


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

Exhibit 7: Five-year discrete performance data

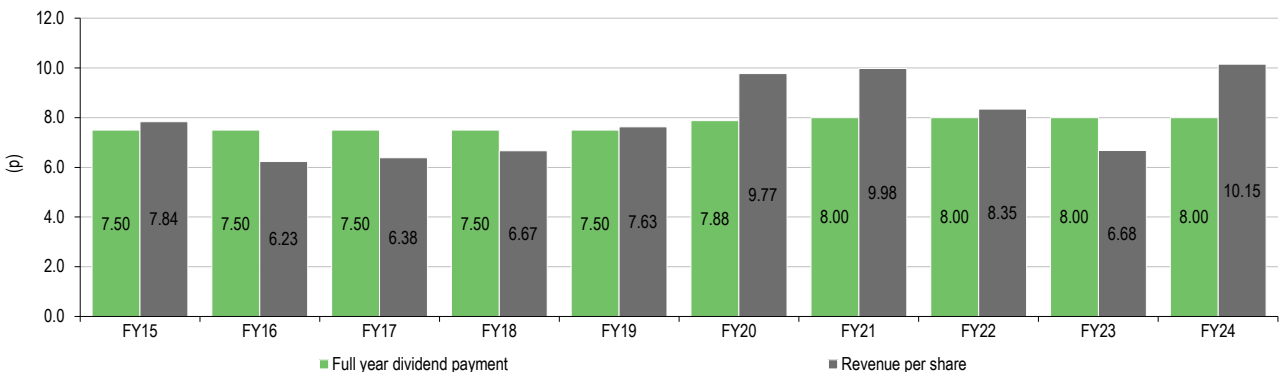
12 months ending	Share price (%)	NAV (%)	CBOE UK All Companies (%)	MSCI AC World (%)	MSCI Emerging Markets (%)
30/09/20	(35.2)	(20.7)	(17.9)	5.8	5.7
30/09/21	71.5	35.8	28.5	22.7	13.7
30/09/22	(26.8)	(31.4)	(3.4)	(3.7)	(12.8)
30/09/23	(31.6)	(21.4)	14.5	11.0	2.6
30/09/24	(15.2)	(19.4)	13.3	20.4	15.1

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

Dividends: 8.0p per share annual distribution

In FY24, UIL's revenue per share was 10.15p, which was 51.9% higher year-on-year, and was primarily due to lower financing costs offsetting robust income. There was a return to a fully covered dividend (c 1.3x covered). At the end of FY24, UIL had revenue reserves of 18.15p per share, which is equivalent to c 2.3x the annual distribution.

UIL pays regular quarterly dividends in December, March, June and September. The board aims to at least maintain the total annual distribution, using revenue reserves as required (it also has the flexibility to pay dividends out of capital).

Exhibit 8: UIL's dividend and revenue history since FY15


Source: UIL, Edison Investment Research

Valuation: Discount likely to narrow

Over the last three years, UIL's shares have regularly traded in a broad range of a 25% to 45% share price discount to cum-income NAV (based on monthly NAVs, Exhibit 9). The discount should narrow given that part of the company's privatisation plan is to offer shareholders an exit at a 20% discount to NAV starting in H225.

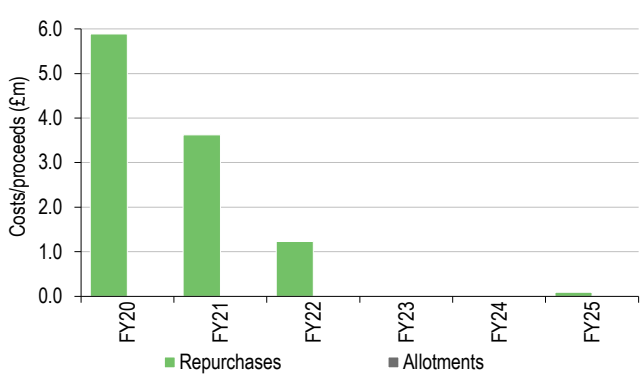
No share repurchases were undertaken in FY24, as the focus was on repayment of an outstanding bank loan and planning for the redemption of the October 2024 ZDP shares. There have been modest buybacks of ordinary shares and ZDP shares so far in FY25.

Exhibit 9: Discount over last three years (%)



Source: LSEG Data & Analytics, Edison Investment Research.
Note: Based on monthly NAVs.

Exhibit 10: Buybacks and issuance



Source: Morningstar, Edison Investment Research

Fund profile: Seeking undervalued assets

UIL began trading on 20 June 2007 as the successor vehicle to Utilico Investment Trust, which was launched in August 2003. It is a Bermuda-registered company listed on both the Specialist Fund Segment of the London Stock Exchange (which does not have any free float requirements) and the Bermuda Stock Exchange. UIL is managed by ICM Investment Management and ICM (collectively referred to as [ICM](#)), which has c £1.6bn of assets directly under management and is responsible for a further c £9.1bn of assets in subsidiary investments. ICM has more than 80 staff based in nine offices around the world.

Jillings and the other members of the ICM investment team aim to identify and invest in compelling long-term investments across the globe, where their forecast underlying values are not fully recognised. UIL may invest in shares, bonds, convertibles and other types of securities, including non-investment-grade bonds. Unlisted securities of up to 25% of gross assets at the time of investment are also permitted. Derivative instruments have been used for investment purposes and efficient portfolio management and at times currency exposure may be hedged. UIL's sector and geographic exposure is unrestricted but, at the time of investment, a single holding may not exceed 30% of gross assets (except for platforms, which may not exceed 50%).

The company's performance is benchmarked against a broad UK equity market index. UIL currently employs a levered strategy through ZDP shares. Its ZDP shares are listed on the Standard Segment of the Main Market of the London Stock Exchange.

Investment process: Long-term perspective

ICM's investment teams are led by Duncan Saville and Charles Jillings. The other senior members of the team are sector-focused and include: Alasdair Younie, who covers financial services; resources specialist Tristan Kingcott; Jason Cheong and Matt Gould, who focus on technology and emerging technologies; Jacqueline Broers and Mark Lebbell, who are focused on the utilities and infrastructure sectors; Dugald Morrison, who covers ICM Mobility Group in his role as head of Australasia; and fixed income specialist Gavin Blessing.

UIL seeks to generate long-term capital growth by investing in undervalued assets across the globe. Businesses may be under-priced for a variety of reasons including technological change, competition, an inefficient balance sheet, an underperforming management team or a lack of investor interest. Historically, the majority of UIL's portfolio was invested in ICM-managed funds, referred to as platforms, with the balance in direct holdings. Jillings suggests the platform approach offers the following benefits:

- **Focused strategy** – each platform has a dedicated mandate and the strategy has an objective of finding and implementing attractive investments within these.
- **Dedicated research analysts** – for each platform the analysts are focused on understanding existing portfolio businesses and identifying compelling investments.
- **Financial support** – ability to draw on UIL's support and financial backing.
- **Deep knowledge** – utilising ICM's knowledge across many jurisdictions to optimise investment opportunities and undertake corporate finance-led transactions.

The manager stresses the importance of supporting investee companies with their capital requirements and says UIL may often be among their largest shareholders, maintaining regular contact with them. There is no limit as to how much of a company UIL can own and it may sometimes take legal or management control of a firm.

UIL's approach to ESG

ICM is committed to a strong ESG framework and the company is a signatory of the United Nations-supported Principles for Responsible Investment (PRI). The PRI is an international organisation that works to promote the incorporation of ESG factors into investment decision-making. UIL's board believes it is in shareholders' best interests to consider ESG factors when selecting and retaining investments. In conjunction with assessing the financial, macroeconomic and political drivers when making and monitoring an investment, the manager embeds ESG opportunities and risks into the firm's investment process. Companies are scanned using a rigorous in-depth framework. However, the decision on whether to make an investment is not made on ESG grounds alone. Factors are incorporated into the process in three main ways:

- **Understanding** – in-depth analysis of the important business issues faced by potential and current holdings, as well as a deep understanding of the industries in which they operate.
- **Integration** – incorporation of the understanding into full company analysis to ensure there is a clear and complete picture of the investment opportunity.
- **Engagement** – regular communication with investee companies, both virtually and on location, where possible, to discuss and identify any gaps in their ESG policies and to further develop and improve their ESG disclosure and implementation.

The board believes that an analysis of ESG factors helps to enhance the understanding of a company, as these factors affect their business models and their long-term ability to generate sustainable returns. It also enables UIL's investment team to fully question a company's investment potential from a variety of perspectives.

Gearing: ZDP shares

UIL currently follows a levered strategy using ZDP shares. During FY24, the £37.5m multicurrency senior secured revolving facility with Bank of Nova Scotia, London branch, was repaid, so now UIL has no bank facility.

The board stated its commitment to reduce the company's debt and gearing in the FY14 annual report and it has fallen from more than 150% at 30 June 2013 to 82.9% at 30 September 2024.

The company has an exemplary track record of redeeming its 2012, 2014, 2016, 2018, 2020 and 2022 ZDP shares. UIL's 2024 ZDPs will be redeemed on 31 October 2024 at 138.35p per share. Historically, the company's capital structure provided holders with attractive yields and a range of maturity dates, which enabled it to realise a smaller number of investments in advance of each redemption date, so was therefore less disruptive to the portfolio. Exhibit 11 shows the company's current tranches of ZDP shares; they are issued by UIL Finance, a wholly owned subsidiary of UIL.

Over time, UIL's financing costs reduced from an average rate of 6.3% at the end of June 2013 to 4.7% at the end of June 2022. They increased to 5.7% at the end of June 2023 in a higher interest rate environment but declined to 5.2% at the end of June 2024 due to lower bank borrowings.

Exhibit 11: ZDP shares (at 30 September 2024)

	2024	2026	2028
Accrued capital entitlement (p)	137.81	136.86	121.22
Share price (p)	136.00	121.50	98.50
Premium/(discount) to NAV (%)	(1.3)	(11.2)	(18.7)
ZDP cover* (x)	4.88	2.75	1.91
Yield to redemption* (%)	22.4	11.2	11.3
ZDP redemption value (p)	138.35	151.50	152.29
Shares in issue (m)	30.0	25.0	25.0
Ticker	UTLG	UTLH	UTLI

Source: UIL, Edison Investment Research. Note: *Based on final redemption values.

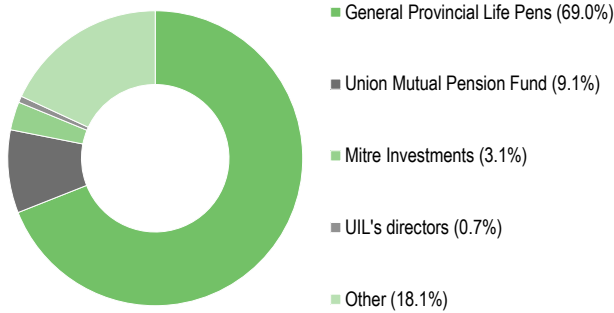
Fees and charges

ICM receives an annual management fee of 0.5% pa of UIL's total assets less current liabilities (excluding borrowings and excluding the value of all holdings in companies managed or advised by ICM or its subsidiaries from which it receives a management fee), along with 45% of ICM's costs of providing company secretarial services. ICM is entitled to a 15% performance fee on NAV returns over benchmark at the higher of 5.0% or the UK gilt five- to 10-year index post-tax yield plus RPIX (RPI excluding mortgage payments) inflation. The NAV must exceed the high-water mark NAV from when the performance fee was last paid (adjusted for capital events and dividends paid) and the fee is capped at 2.5% of financial year-end NAV (adjusted for capital events and dividends paid). It is also reduced to consider any performance fees paid to ICM by companies where UIL is an investor.

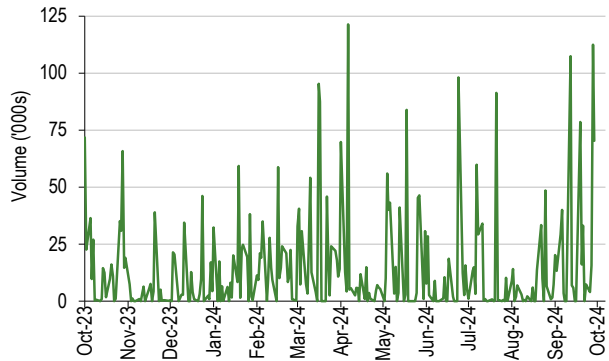
In FY24, UIL's ongoing charges were 2.8%, which was in line with FY23; no performance fees were payable in either period. UEM's ongoing charges appear high compared with other investment companies as the expense calculation is based on a percentage of average net assets (after the deduction of the ZDP shares).

Capital structure

UIL currently has 93.3m ordinary shares outstanding, the majority are of which are held by companies associated with ICM manager Duncan Saville or UIL's directors; hence, the free float is c 18%. Over the last 12 months, the company had an average daily trading volume of c 17k shares.

Exhibit 12: Major shareholders


Source: UIL. Note: At 18 October 2024.

Exhibit 13: Average daily volume


Source: LSEG Data & Analytics. Note: 12 months to 18 Oct 2024.

The board

Exhibit 14: UIL's board of directors

Board member	Date of appointment	Remuneration in FY24	Shareholding at 10 October 2024
Stuart Bridges (chair since 31 March 2024)	October 2019	£50,738	255,712
Alison Hill	November 2015	£38,850	165,310
David Shillson	November 2015	£38,850	193,614
Peter Durhager	March 2024	£12,538	23,814

Source: UIL

On 21 February 2024, Peter Durhager was announced as an independent, non-executive director with effect from 31 March 2024. He has more than 25 years of experience in the financial, telecoms and energy sectors. Durhager is an executive director of the Allan & Gill Gray Foundation and a non-executive director of Harrington Re. He was formerly the president of RenaissanceRe Services, and executive vice president and chief administrative officer of RenaissanceRe Holdings. Durhager was also previously the chairman of Ascendant Group, America's Cup Bermuda and the Bermuda Community Foundation. In addition, he founded and ran a series of financial and telecoms businesses and worked in the banking sector. Durhager was chairman of Somers but, in advance of joining UIL's board, retired following Somers' AGM on 12 March 2024.

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