

Investment Funds

Idea - Utilico Emerging Markets*

Today's fund in the spotlight:
Utilico Emerging Markets*
(UEM)

UEM NAV vs. MXEF



Source: Morningstar

Utilico Emerging Markets (UEM) celebrated its tenth anniversary recently and we met with Charles Jillings at an analysts' presentation, as the fund manager highlighted both UEM's strong track record and the investment opportunity that he sees going forward. UEM's NAV total return for the year ending March 2015 was 12.2% and the dividend per share was maintained at 6.1p. Over the last ten years, dividends have steadily risen from 1.5p to 6.1p, while the annual compound NAV return since inception is 12.4%, significantly better than the MSCI World Index and the MSCI Emerging Markets Index.

Strong long-term performance

Since inception, UEM has outperformed both the MSCI Emerging Markets index and the MSCI World Index. Over the five-year period ending March 2015, the performance differential between the MSCI Emerging Markets Index and UEM has been especially stark (60.4% NAV TR for UEM vs. 13.3% for MSCI Emerging Markets Index).

For the year ending March 2015, earnings per share were up 3.8% to 4.98p. The Board has declared four quarterly dividends of 1.525p, amounting to 6.10p for the year to 31 March 2015. No increase was considered given the dividend was partly uncovered. The dividend cover rose to 81.6% as at the end of March 2015. The fourth quarterly dividend has been paid out of capital reserves and as a result income of 0.405p per share has been retained. The cumulative retained revenue reserves are £3.2m, some 1.5p per share. The 6.10p distributed represents a yield on the current share price of 194.5p of 3.1%. Over the ten years since inception, UEM has paid out 47.30p per share in dividends amounting to £96.3m.

The Chairman of the Board, Alexander Zagoreos, felt that the share price discount to NAV remained stubbornly high, given both the performance and the yield offered by UEM shares. The Board keeps this discount under constant review and exercises a buy-back investment policy at over a 10% discount, but this is an investment decision and will remain so. Over the ten years, the Investment Managers have exercised their investment discretion and bought back 26.0m shares amounting to £36.4m.

UEM's gross assets (less liabilities excluding loans) increased from £433.4m to £479.2m in the year to 31 March 2015. The constituents of the top ten holdings remained unchanged, but the total, as a percentage of the portfolio, reduced from 56.3% to 53.7%. This arose in part as a result of net disposals in the top ten and a stronger performance from the rest of the portfolio. Unlisted investments remained at 2.3% of the gross assets.

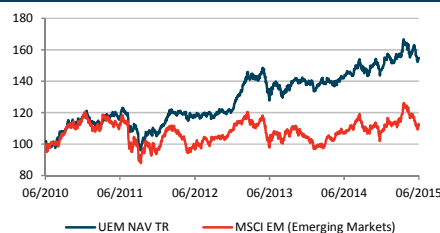
Somers Limited is a substantial shareholder (84.6%) in Westhouse Holdings Plc, the parent company of Westhouse Securities Limited. Utilico Emerging Markets Limited and Somers Limited both have a significant common shareholder, Utilico Investments Limited. Charles Jillings is a member of the Westhouse Holdings Plc Board, which is the 100% shareholder of Westhouse Securities Ltd.

Priced at close
25 June 2015

Analyst
Saumya Banerjee
020 7601 6629

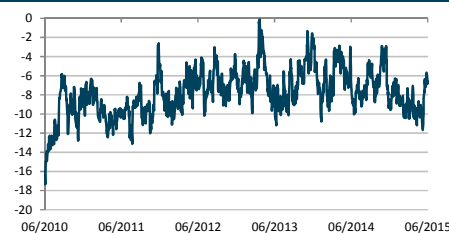
saumya.banerjee@westhousecurities.com

Figure 1: UEM NAV TR vs. MXEF



Source: Morningstar

Figure 2: UEM discount



Buy Utilico Emerging Markets (UEM)

Charles Jillings took advantage of the rally in Chinese equities to book profits/exit several positions

While the fund's top ten holdings were unchanged as at 31 March 2015, since then some emerging markets, such as China, have rallied sharply. Most of the stocks that UEM held were via H shares in Hong Kong. Charles Jillings took advantage of the rally in Chinese equities to book profits/exit several positions and consequently the fund's leverage has been sharply reduced. In particular, we noted from the fund's April newsletter that China Everbright International Ltd (257 HK) had dropped out of UEM's top ten holdings despite the stock rallying substantially between the end of March and the end of April. We also note that as at 30 April 2015, debt had been reduced to £9.1m from £31.9m.

Investment decisions are driven almost entirely by bottom up analysis. There is a strong team of analysts supporting Charles Jillings and we continue to be impressed by the depth and breadth of company specific analysis that the team, whom we met at the analysts presentation yesterday (25 June), undertakes in order to mitigate the long-term risks for the portfolio. While the portfolio is obviously exposed to the risks that the underlying economies may present, the team focuses on developing a deep understanding of the companies that UEM invests in, the valuations that they trade at and their long-term prospects. The fund generally tends to have a low turnover and a significantly lower correlation with the MSCI Emerging Markets Index than its peers.

Private consumption is set to become an important growth driver for emerging markets

Jillings highlighted the strong secular growth story that still persists in emerging markets. The middle class in emerging markets is set to double in the next 20 years. Given that the companies that UEM tends to invest in leverage off a growing middle class, the fund's investment thesis remains very strong over the medium to long term. Private consumption is set to become an important growth driver for emerging markets and Jillings and his team continue to find substantial long-term opportunities in the space at relatively attractive valuations.

As an example, Jillings highlighted a study by Airbus Group (AIR FP), which predicts that the number of aviation megacities is set to rise from 47 in 2014, to over 91 by 2034. A large part of this growth is expected to come from emerging markets. Despite this strong growth potential, UEM has consistently shied away from owning airline stocks, but has instead chosen to capture this growth potential by investing in companies that own and operate airports. Two of the opportunities that Jillings highlighted in this space at yesterday's presentation were Shanghai International Airport and Istanbul Sabiha Gokcen (ISG) Airport (100% subsidiary of Malaysia Airports Holding Berhad, MAHB MK), which he expects will see passenger growth numbers of 15% pa. Malaysia Airports was UEM's largest holding at the year end as a result of the reduction in other top ten investments and the fund's subscription to Malaysia Airports's rights issue. The critical analysis for Jillings and his team is how this passenger growth translates into revenue and EBITDA over time.

We continue to recommend UEM as a core holding for emerging market investors

The P/E multiple that MSCI Emerging Markets is trading at (13.1x December 2014 Bloomberg consensus earnings) is a substantial discount to the P/E multiple of MSCI World Index (17.9x December 2014 Bloomberg consensus earnings). The strong outperformance that UEM has generated is impressive. Equally impressive is the relatively low correlation that the fund's NAV returns have had over the last five years with both the MSCI Emerging Markets Index and other funds in the sector, thereby providing a strong degree of diversification to a portfolio of other emerging market funds. We continue to recommend UEM as a core holding for emerging market investors.

Disclaimers

The trading ideas in this report are short-term recommendations that do not fall within our normal fundamental recommendation classification. The trading ideas are possibly in response to a move in relative valuation, performance, yield or management, as well as changing asset class preferences. The view is a short-term suggestion and does not contradict any existing 'recommendation' on a specific Investment Fund mentioned and accordingly is limited herein to a trading Buy or Sell. For disclosures in relation to formal Investment Funds research recommendations please see the following link <http://www.westhousesecuritiesresearch.com>.

Westhouse acts as broker or advisor to ADVANCE DEVELOPING MARKETS FUND, ALTERNATIVE ASSET OPPORTUNITIES PCC, BLACKROCK SMALLER COMPANIES TRUST, BLACKROCK THROGMORTON TRUST, INVESCO ASIA TRUST, INVESTMENT COMPANY (THE), MAJEDIE INVESTMENTS, RIGHTS & ISSUES INVESTMENT TRUST, TALIESIN PROPERTY FUND, TR EUROPEAN GROWTH TRUST, UNITECH CORPORATE PARKS, UTILICO EMERGING MARKETS, UTILICO FINANCE, UTILICO INVESTMENTS, THE PROSPECT JAPAN FUND, THE WORLD TRUST FUND.

Westhouse acts as a market maker or liquidity provider for ABERDEEN JAPAN, ADVANCE DEVELOPING MARKETS FUND, ADVANCE FRONTIER MARKETS FUND, ATLANTIS JAPAN GROWTH FUND, ABERFORTH SMALLER COS, ALLIANCE TRUST, ASIAN TOTAL RETURN, BAILLIE GIFFORD JAPAN TRUST, BLACKROCK COMMODITIES INCOME, BLACKROCK LATIN AMERICAN INV, BLACKROCK SMALLER COMPANIES, BLACKROCK THROGMORTON TRUST, BLACKROCK WORLD MINING TRUST, BRITISH ASSETS TRUST, BRITISH EMP SEC AND GEN, CALEDONIA INVESTMENTS, CITY NATURAL RESOURCES HIGH YIELD, ECOFIN, EDINBURGH DRAGON TRUST, EUROPEAN INVESTMENT TRUST, FIDELITY ASIAN VALUES, FIDELITY EUROPEAN VALUES, FIDELITY JAPANESE VALUES, F&C PRIVATE EQUITY TRUST, F&C PRIVATE EQUITY TRUST-PRF, FOREIGN & COLONIAL INVEST TRUST, FIDELITY SPECIAL VALUES, GENESIS EMERGING MARKETS, HENDERSON EUROPEAN FOCUS TRUST, HENDERSON EUROTRUST, HERALD INVESTMENT TRUST, HENDERSON SMALLER COMPANIES, HENDERSON VALUE TRUST, INVESCO ASIA TRUST, INDIA CAPITAL GROWTH FUND, INDIA CAPITAL, INVESCO PERPETUAL ENHANCED INCOME, INVESTMENT COMPANY, INVESCO PERP UK SMALLER COS, INVESCO INCOME GROWTH TRUST, JPMORGAN ASIAN INVESTMENT TRUST, JUPITER EUROPEAN OPPORTUN TRUST, JPMORGAN BRAZIL, JPMORGAN EUR SMALLER COS, JPMORGAN EUROPEAN INV-GROWTH, JPMORGAN EUROPEAN INVEST-INC, JPMORGAN JAPANESE INV. TRUST, JPMORGAN INDIAN INV TRUST, JPMORGAN EMERGING MKTS TRUST, JPMORGAN JAPAN SMALLER CO TRUST, JAPAN RESIDENTIAL INVESTMENT, LAW DEBENTURE CORP, MAJEDIE INVESTMENTS, MONKS INVESTMENT TRUST, MERCANTILE INVESTMENT TRUST, MITON WORLDWIDE GROW TRUST, MURRAY INTERNATIONAL TRUST, NORTH ATLANTIC SMALLER COMP, NEW INDIA INVESTMENT TRUST, PACIFIC ASSETS TRUST, POLAR CAPITAL TECHNOLOGY TR, PACIFIC HORIZON INV TRUST, PROSPECT JAPAN FUND LIMITED (THE), QATAR INVESTMENT FUND, RENEWABLE ENERGY GENERATION, RIGHTS & ISSUES INV TR-CAP, RIGHTS & ISSUES INV TR-INC, SCOTTISH AMERICAN INV COMP, SCOTTISH INVESTMENT TRUST, SCHRODER UK MID CAP FUND, SCHRODER ASIA PACIFIC, SCHRODER JAPAN GROWTH FUND, SCHRODER UK GROWTH, SCOTTISH MORTGAGE INV TRUST, TEMPLETON EMERGING MARKETS, ALTERNATIVE ASSET OPPTS PCC, TALIESIN PROPERTY FUND, TALIESIN PROPERTY FUND LTD – ZERO PREFERENCE SHARE, TR EUROPEAN GROWTH TRUST, UNITECH CORPORATE PARKS, UTILICO EMERGING MARKETS, UTILICO INVESTMENTS, UTILICO FINANCE and WORLD TRUST FUND.

Somers Limited is a substantial shareholder (84.6%) in Westhouse Holdings Plc, the parent company of Westhouse Securities Limited. Utilico Emerging Markets Limited and Somers Limited both have a significant common shareholder, Utilico Investments Limited.

Charles Jillings is a member of the Westhouse Holdings Plc Board, which is the 100% shareholder of Westhouse Securities Ltd.

Westhouse has been a lead manager in a publicly disclosed offer or placing of securities of Taliesin Property Fund and Utilico Finance in the last 12 months.

Analysts' remuneration is based on a number of factors, including the overall results of Westhouse Securities Limited, to which a contribution is made by investment banking activities. Analysts' remuneration is not based on expressing a specific view or recommendation on an issuer, security or industry.

This research is classified as being a "marketing communication" as defined by the FCA's Handbook. This is principally because analysts at Westhouse Securities are involved in investment banking activities and pitches for new business and consequently this research has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Therefore, the research is not subject to any prohibition on dealing ahead of the dissemination of investment research. Nevertheless, the Firm's Conflict of Interest Management Policy prohibits dealing ahead of research, except in the normal course of market making and to satisfy unsolicited client orders. Please refer to www.westhousesecurities.com for a summary of our conflict of interest management policy in relation to research. This includes organisational controls (departmental structure, a Chinese wall between corporate finance and other departments, etc), procedures on the supervision and remuneration of analysts, a prohibition on analysts receiving inducements for favourable research, editorial controls and review procedures over research recommendations and a prohibition on analysts undertaking personal account dealings in companies covered by them.

This document has been approved by Westhouse Securities Limited ('Westhouse') for communication to professional clients (as defined in the FCA Handbook) and to persons who, if they were clients of Westhouse, would be professional clients. Any recommendations contained in this document are intended solely for such persons. Any individuals receiving this document do so in their capacity as directors or officers of one of WSL's corporate clients and not as an individual client of WSL. This document is not intended for use by persons who are retail clients of Westhouse or, who would if they were clients of Westhouse, be retail clients, who should consult their investment adviser before following any recommendations contained herein. In any event this document should not be regarded by the person to whom it is communicated as a substitute for the recipient's own judgement and does not constitute investment advice (as defined in the FCA Handbook) and is not a personal recommendation. This document is based on information obtained from sources which we believe to be reliable; however, it is not guaranteed as to accuracy or completeness by Westhouse, and is not to be construed as a representation by Westhouse. Expressions of opinion herein are subject to change without notice. This document is not and should not be construed as an offer or the solicitation of an offer to buy or sell any securities. Past performance is not necessarily a guide to future performance. The value of the financial instruments referred to in this research may go down as well as up. Westhouse and its associated companies and/or their officers, directors and employees may from time to time purchase, subscribe for, or add to or dispose of any shares or other securities (or interests) discussed herein. Recipients must not pass this research document on to any other person except with the prior written permission of Westhouse.

Westhouse Securities Limited is authorised and regulated by The Financial Conduct Authority (Registered Number 114265) and is a member of The London Stock Exchange. Westhouse Bryan Garnier, Bryan Garnier Westhouse and Westhouse are trading names of Westhouse Securities Limited. Registered Office: 110 Bishopsgate, London, EC2N 4AY. Registered in England Number: 762818. The Financial Conduct Authority address is 25 The North Colonnade, Canary Wharf, London E14 5HS.

Westhouse Securities, 110 Bishopsgate, London, EC2N 4AY

Email: firstname.surname@westhousesecurities.com

Investment Funds Contacts

IF Sales/Market Making

Matthew Kinkad	+44 (0)20 7601 6626
Darren Papper	+44 (0)20 7601 6632
Calum Summers	+44 (0)20 7601 6631
Pauline Tribe	+44 (0)20 7601 6623

IF Research

Saumya Banerjee	+44 (0)20 7601 6629
IF Corporate Finance	
Alastair Moreton	+44 (0)20 7601 6118
Rose Ramsden	+44 (0)20 7367 5596
Hannah Young	+44 (0)20 7601 6119