



FUND LAUNCHED

2005

FUNDS UNDER MANAGEMENT

£517.2
MILLION

NET ASSET VALUE PER SHARE

358.7%
SINCE INCEPTION*



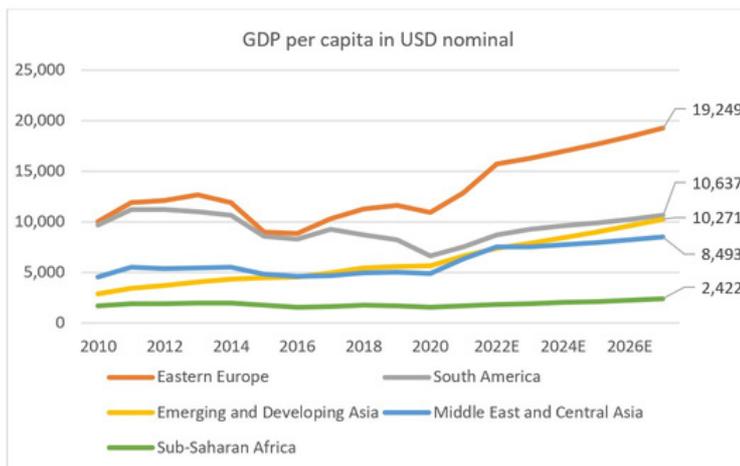
Eastern Europe

January 2023

The CEE into context

Central Eastern Europe ("CEE") is the often-overlooked economic success story of the 21st century. The region's price-adjusted GDP has grown at an average of 3.4% per year since 2000⁽¹⁾, far outpacing not only developed economies, but also most of the developing world. Even more impressively, 9 countries from the region managed to overcome the "middle-income trap", and attained the "high income" status⁽²⁾ as per the World Bank's classification over the same period. This is a notoriously difficult challenge for any middle-income country and its achievement sets the region apart from all others. Thanks to that, today, the total size of Eastern Europe's economy is ~\$4.3tn, which is comparable to the whole of Middle East, South Asia and Latin America regions⁽³⁾.

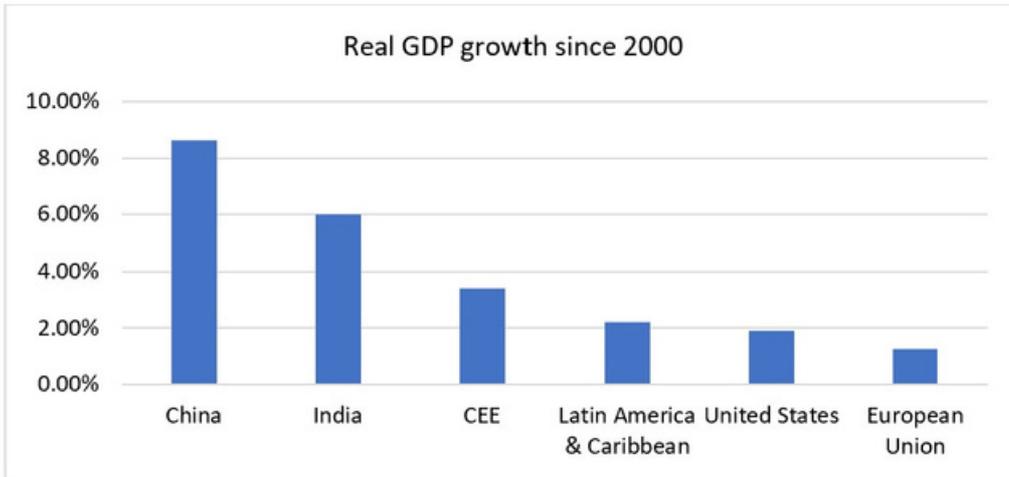
The growth was and continues to be driven by the expansion of manufacturing and exports, supported by a continuous extension of regional supply chains and "near-shoring" by Western companies. The integration into the EU has been another major driver for the majority of the CEE space, backed by institutional reforms and fiscal support from the EU's budgetary framework. The current 7-year budget framework, together with the NextGenerationEU ("NextGenEU") program will be a substantial driver for economic growth in the next 5 years.



Eastern Europe IMF grouping:

Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova, Montenegro, North Macedonia, Poland, Romania, Russian Federation, Serbia, Slovak Republic, Slovenia, Ukraine.

Source: Historic GDP per capita and projects by 2027, IMF, 2023

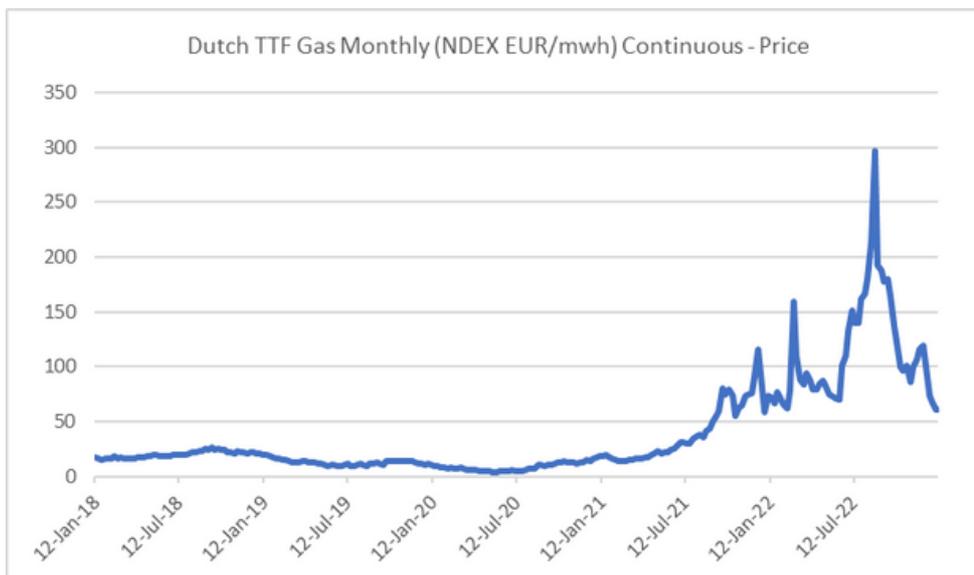


Source: Estimated GDP growth using constant 2015 USD, IMF, 2023

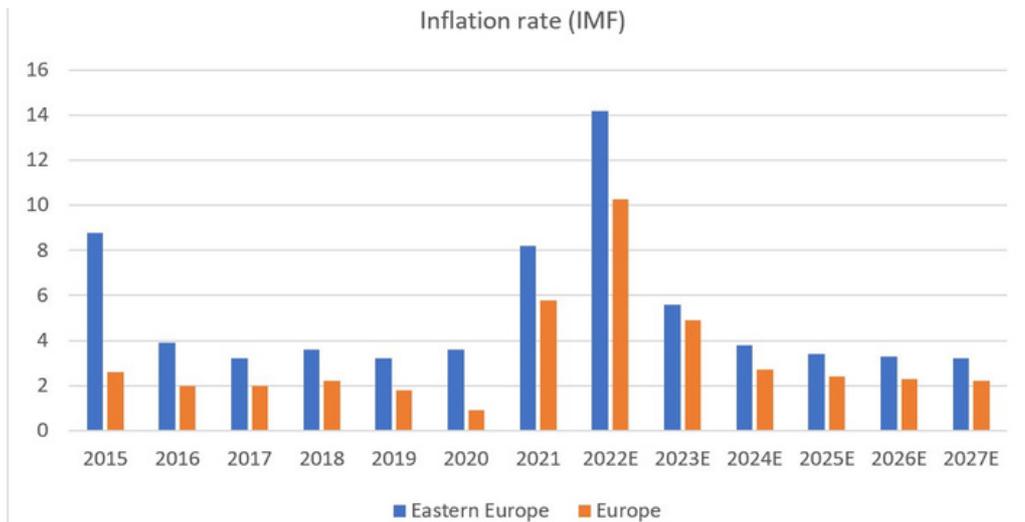
The war in Ukraine

Russia's invasion of Ukraine on 24 February 2022 started the biggest armed conflict in Europe since WWII. As a result, Europe was faced with the biggest loss of human life, a refugee crisis that displaced 8 million people⁽⁴⁾ and a severe energy crisis. The combination of sanctions on Russia, the interruption of major Black Sea trade routes and the cessation of Russian gas supplies to Europe led to a record spike in food, gas and electricity prices. This drove inflation towards the high teens, impacting Eastern Europe much more than the rest of the world due to the region's dependency on Russian oil and energy imports.

However, the region, and Europe as a whole, have proven more resilient than originally expected. With the completion of new LNG terminals and expansion of existing sites, Europe was able to purchase and fill up its gas hubs to fully replace the lost Russian quantities, at least for the time being. A milder winter has also helped normalise energy prices in recent months and consensus forecasts are for inflation to begin to subside in 2023.



Source: Dutch TTF Gas Monthly historic chart, Factset, 2023



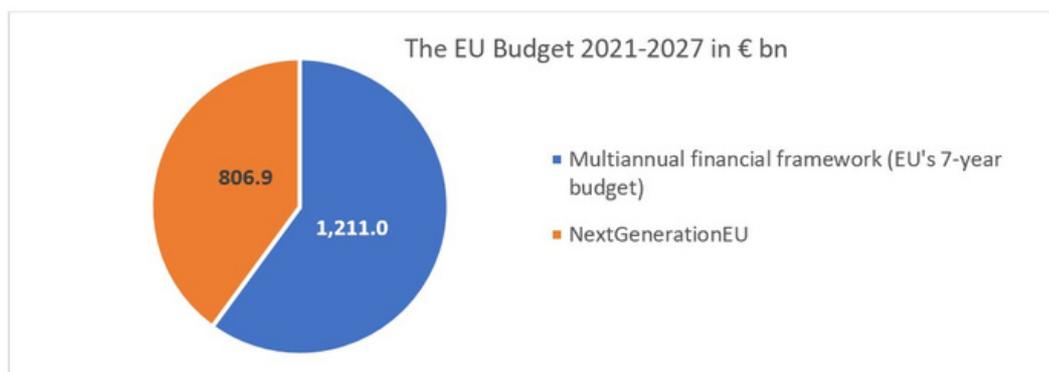
Source: Inflation rate, end of period consumer prices (Annual percent change); (IMF, 2023)

The EU budget and NextGenEU

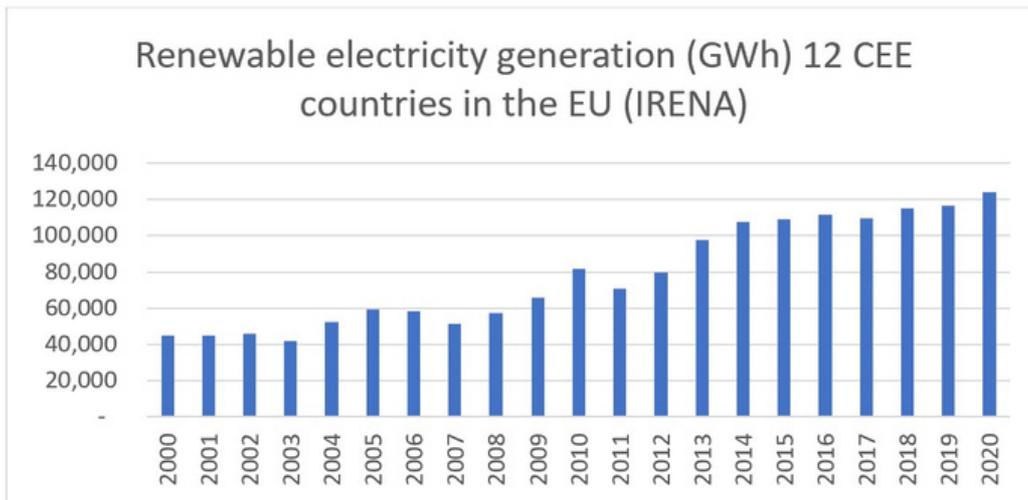
The 2021-2027 EU budget amounts to a total of €2tn, split between the regular Multiannual Financial Framework budget (MFF) with €1.21tn and the post-Covid recovery program NextGenEU with €806bn⁽⁵⁾. Much of that (30%)⁽⁶⁾ will be spent on climate-related projects that will assist the green transition in countries such as Poland, Hungary and Bulgaria. The target is to reach renewables energy generation to 32% of total production by 2030, up from the 20% target in 2020⁽⁷⁾. This includes a “just transition mechanism” which aims to provide financial and technical support to the regions most affected by the move towards a low-carbon economy worth c. €90bn.

Separately, €7.6bn⁽⁸⁾ (c.20% of the European Social Fund) is allocated directly for digitalisation projects. This will support the ongoing digital transformation at public and private enterprises. Moreover, as usual, a certain amount (€48bn) is allocated to the EU’s Cohesion Policy that supports investment projects, mainly in environmental and transport infrastructure in Europe’s less developed regions.

This may sound like a lot, but the MFF budget is in fact comparable to the national budget of Denmark⁽⁹⁾ and the whole package, including NextGenEU, is equivalent to just c.1.9% of the EU’s GDP. However, the EU’s Eastern European member states are traditionally the big net beneficiaries, with EU budget receipts reaching between 1-4% of their national GDPs annually. This would be an important structural driver for the Central and Eastern European economies for the next 5 years and provide a certain level of fiscal support in the current environment.



Source: EU Budget Breakdown 2021-2027; (European Commission, Directorate-General for Budget, 2023)



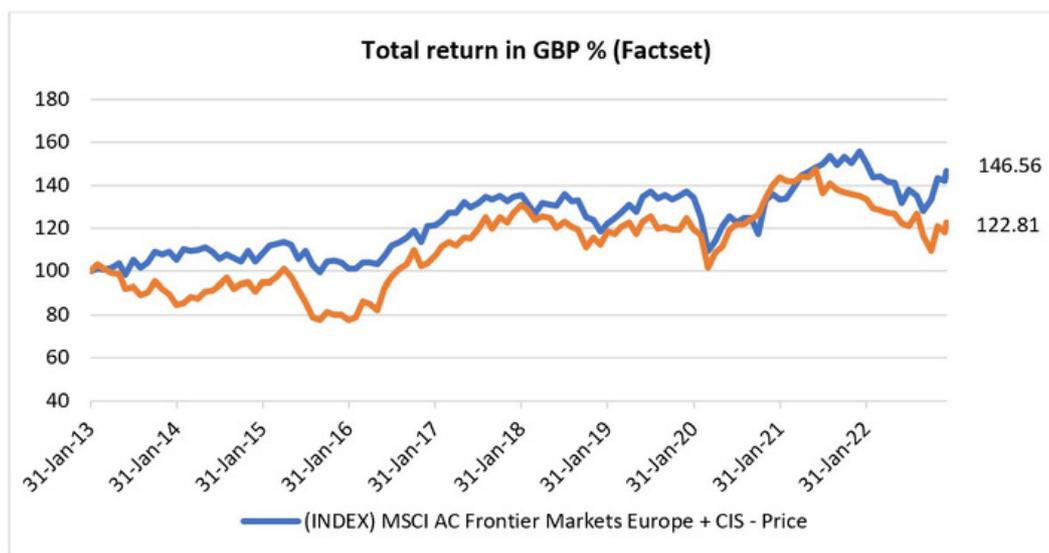
Source: Renewable electricity generation (GWh) 12 Eastern European members in the EU; (International Renewable Energy Agency, 2023)

Outlook for Eastern European Equities

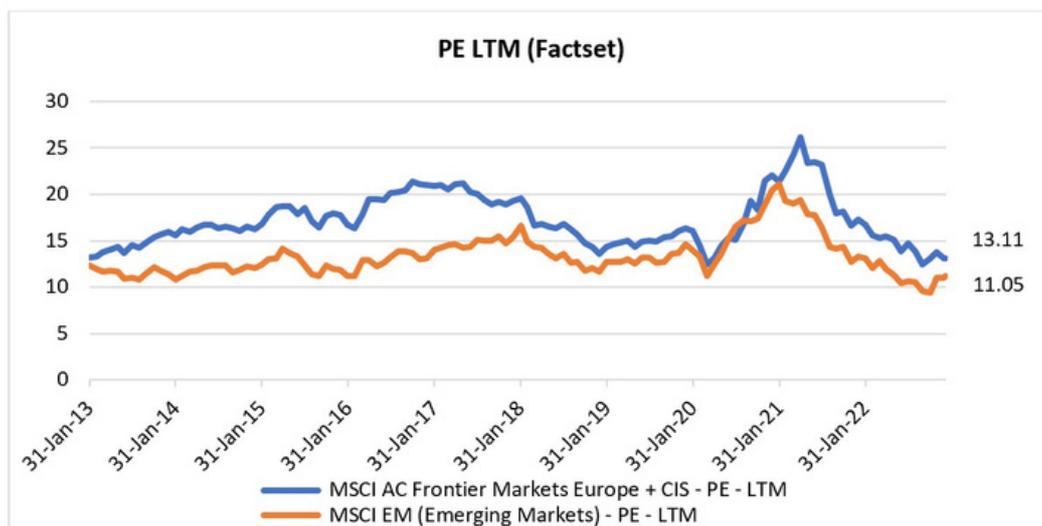
The war in Ukraine triggered the collapse of Russian equities and seriously impacted the valuations of most Eastern European markets in the weeks that followed. This led to a severely negative impact on many funds specialising in the “Emerging Europe” sector and triggered a number of fund suspensions. UEM was less impacted due to its minimal exposure to Russia and its focus on resilient, high-quality names in the CEE region.

It is also important to note that Russia’s expulsion from the MSCI indices in March, led to a reduction of the “Emerging Europe” presence in the wider MSCI EM index from ~5.2% to just ~2%⁽¹⁰⁾. This number severely misrepresents the real economic weight of the region within the emerging and frontier markets space and is attributable to Eastern Europe’s smaller, fragmented capital markets that tend to have lower liquidity. Despite that, we have seen strong recovery across most CEE markets since then, and current valuations, near 10-year lows, appear attractive.

UEM will continue to seek opportunities to capture the structural growth themes in Eastern Europe. This includes the rapid growth of renewables, the digitisation of governments and enterprises and the continuous expansion of trade and logistics. As new quality companies continue to IPO and businesses continue to deliver growth, we remain optimistic on the long-term story of the region.



Source: Total return in GBP; (Factset, 2023)



Source: PE LTM; (Factset, 2023)

George Velikov

11 January, 2023

Source Data: ICM Limited.

[1] IMF. (2023, 1 11). IMF Datamapper. <https://www.imf.org/external/datamapper/NGDPD@WEO/EEQ>

[2] The World Bank. (2023, 1 11). The World by Income and Region. <https://datatopics.worldbank.org/world-development-indicators/the-world-by-income-and-region.html>

[3] IMF. (2023, 1 11). IMF Datamapper. <https://www.imf.org/external/datamapper/NGDPD@WEO/EEQ>

[4] UNHCR. (2023, 1 11). UNHCR: Ukraine, other conflicts push forcibly displaced total over 100 million for first time.

<https://www.unhcr.org/news/press/2022/5/628a389e4/unhcr-ukraine-other-conflicts-push-forcibly-displaced-total-100-million.html>

[5] & [6] European Commission, Directorate-General for Budget. (2023, 1 11). The EU's 2021-2027 long-term budget and NextGenerationEU: facts and figures. <https://op.europa.eu/en/publication-detail/-/publication/d3e77637-a963-11eb-9585-01aa75ed71a1/language-en>

[7] European Commission. (2023, 1 11). Renewable energy directive. https://energy.ec.europa.eu/topics/renewable-energy/renewable-energy-directive-targets-and-rules/renewable-energy-directive_en#:~:text=In%20July%202021%2C%20the%20Commission,EU's%20energy%20consumption%20by%202030.

[8] European Commission, Directorate-General for Budget. (2023, 1 11). The EU's 2021-2027 long-term budget and NextGenerationEU: facts and figures. <https://op.europa.eu/en/publication-detail/-/publication/d3e77637-a963-11eb-9585-01aa75ed71a1/language-en>

[9] Denmark - General government expenditure. (2023, 1 11). <https://countryeconomy.com/government/expenditure/denmark>

International Renewable Energy Agency. (2023, 1 11). IRENASTAT Online Data Query Tool.

[https://pxweb.irena.org/pxweb/en/IRENASTAT?](https://pxweb.irena.org/pxweb/en/IRENASTAT?_gl=1*1fb53vx*_ga*MTg4MjEzODMyNy4xNjc3Mjc3MjQz*_ga_7W6ZEF19K4*MTY3MzQzNTkzMC4zLjEuMTY3MzQzNTkzOC41Mi4wLjA.)

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[10] Factset. (2023, 1 9).

*Total return is calculated based on undiluted Net Asset Value, plus dividends reinvested and adjusted for the exercise of warrants and subscription shares

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