



FUND LAUNCHED

2005

FUNDS UNDER MANAGEMENT

£521.0
MILLION

NET ASSET VALUE PER SHARE

442.8%
SINCE INCEPTION*



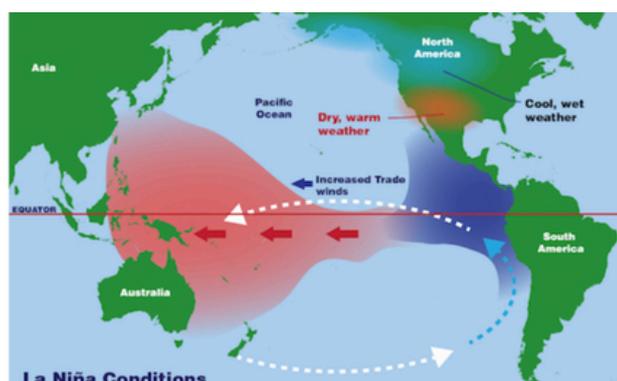
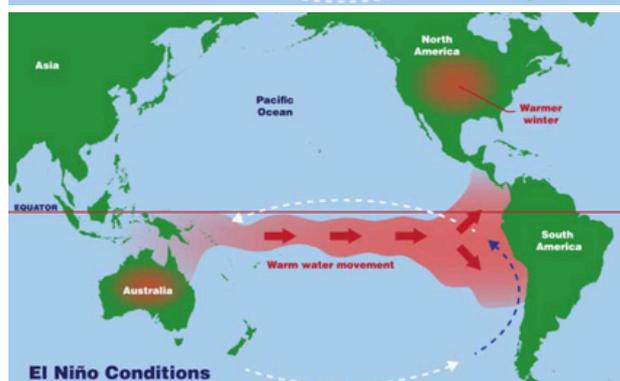
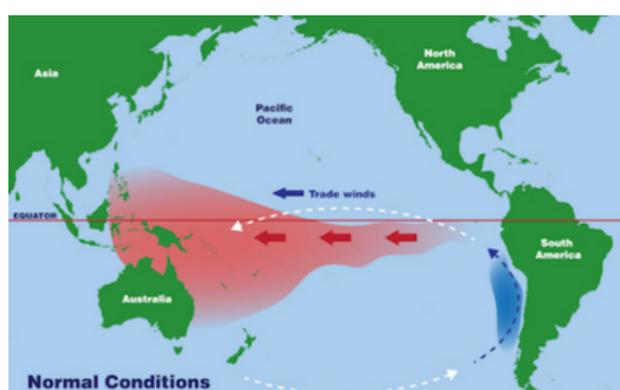
Weathering the Market: El Niño and La Niña

May 2024

El Niño and La Niña are critical climate phenomena that significantly influence global weather patterns, impacting economies and industries worldwide. For investors, understanding these phenomena extends beyond mere meteorological interest; it is crucial for anticipating the economic implications and how disruptive or beneficial they can be for some specific companies. Recognising the effects of El Niño and La Niña enables investors to strategically position their portfolios by assessing the potential risks and opportunities across different geographies and sectors.

Under 'normal' conditions, trade winds blow east to west taking warm water across the Pacific, allowing cooler water to rise near South America. El Niño events begin when the trade winds that blow across the equator

weaken or reverse. This change allows warm water from the western Pacific to shift eastward toward the central and eastern Pacific. This redistribution of warm water leads to an increase in sea surface temperatures (SSTs) in these regions. In contrast, La Niña events occur when these trade winds strengthen, more forcefully pushing the warm water westward and enhancing the upwelling of colder water in the eastern Pacific. This results in lower SSTs in the central and eastern regions, which typically influences global weather patterns in ways opposite to those of El Niño.



Source: NOAA/JPL¹

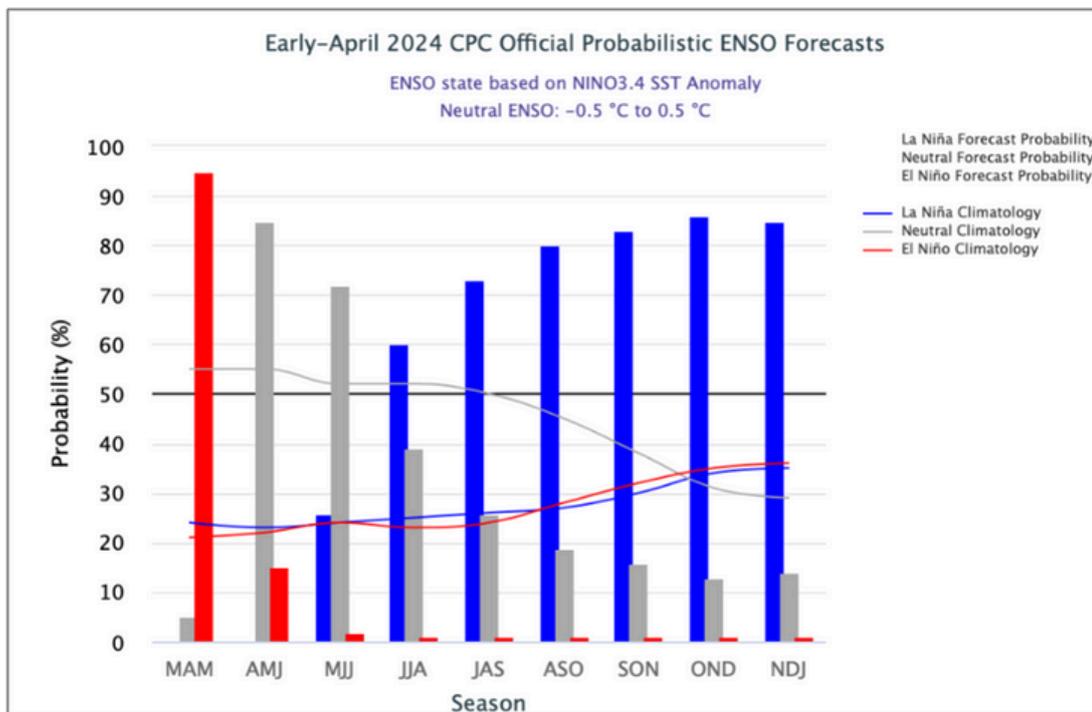
El Niño and La Niña

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The Climate Prediction Center monitors the temperature of a specific area in the Pacific Ocean to forecast El Niño and La Niña. If the ocean's surface temperature changes by at least 0.5°C (warmer or cooler) and the atmosphere reacts accordingly, an El Niño or La Niña event might be materialising. For this change to officially count as an El Niño or La Niña event, these conditions need to last for at least five consecutive three-month periods. Typically, El Niño events go on for about six months, while La Niña can last from nine to twelve months. However, there have been extreme instances where La Niña persisted for 32 months and El Niño for 19 months.²

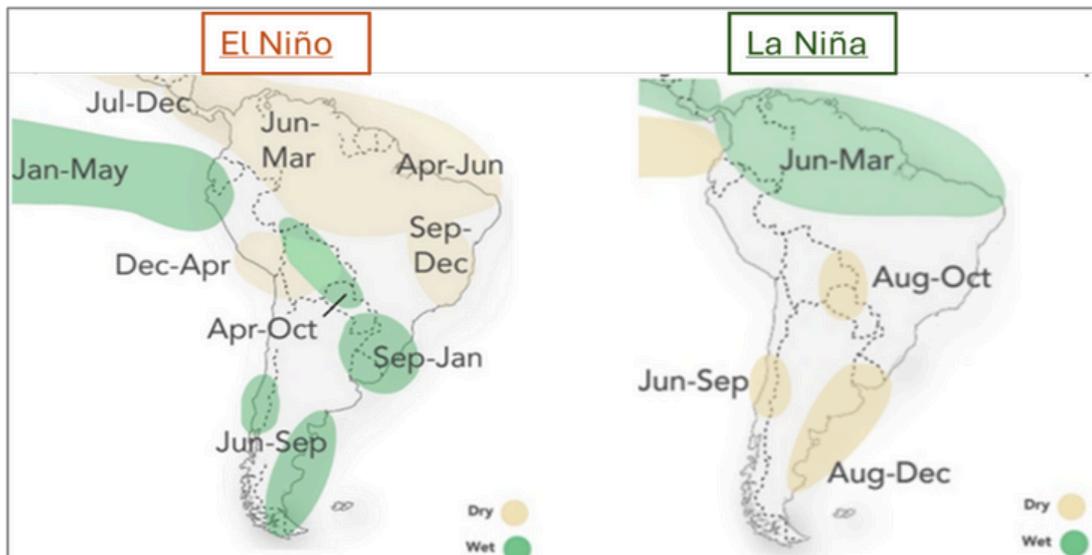
As of May 2024, El Niño conditions are still present but are expected to weaken and transition to neutral by June 2024. There's also a significant chance that La Niña will develop by June to August 2024.³

Early April 2024 CPC Official Probabilistic ENSO Forecasts



Source: Climate Protection Center (CPC)³

Early April 2024 CPC Official Probabilistic ENSO Forecasts



Source: IRI - International Research Institute for Climate and Society⁴

El Niño and La Niña

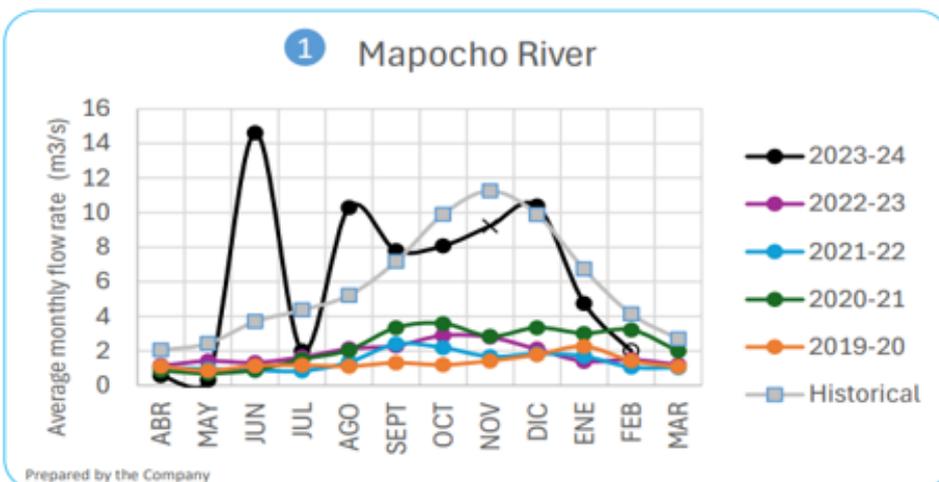
May 2024

As we are in a transition period, it is crucial to understand what the main implications to our investment universe are.

Utilico Emerging Markets (UEM) has over 30% of assets under management (AuM) exposure to South America, and the IRI map illustrates the expected weather patterns in the region, for both El Niño and La Niña. The ongoing El Niño, which began in July 2023, has had varied impacts across different areas. For instance, Colombia is currently experiencing severe drought conditions, with water reservoirs at unprecedented lows. This has prompted the government to recently initiate water rationing in the capital, Bogota. Additionally, since most of the country's energy production is hydro-based, the reduced water levels have necessitated increased reliance on thermal power plants, leading to higher electricity prices. One of UEM's holdings, Corficolombiana, operates Colombia's only natural gas regasification terminal (SPEC), which has been in high demand by gas-fired thermal plants. In 2023, terminal was operational for 210 days, well above the average of 100 days. In 2024, this figure could be even closer to the terminal's full capacity of 350 days.

In Chile, the increased rainfall during the current El Niño period has been highly beneficial, particularly for utilities companies. Before this, Chile experienced a severe drought from 2020 to 2022, influenced by a strong La Niña. This previous climate pattern led to significant electricity price hikes and water shortages, similar to the current situation in Colombia.

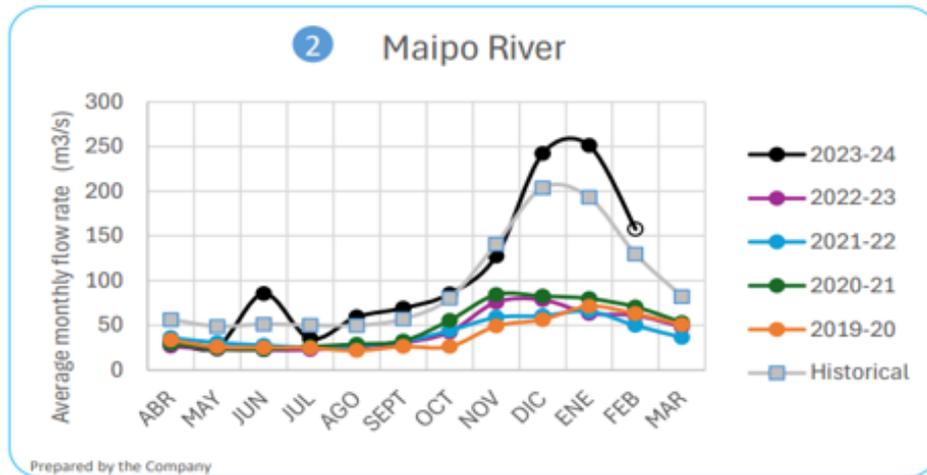
In the first half of 2022, amidst significant uncertainty in Chile, UEM identified an excellent investment opportunity in Aguas Andinas - the largest water and sanitation company in Chile, serving Santiago's metropolitan area and northern regions adjacent to the capital. At this time, the company's share price was 60% below its 2019 levels, a rare drawdown for such a mature and defensive business. This price decline was driven by a mix of La Niña effects, Water Code reform, and macro/political uncertainties, pushing the company's shares to trade at its lowest EV/EBITDA multiple in 20 years and offering an almost double-digit dividend yield. The initial signs of La Niña's end and significant investments by the company to enhance service resilience, combined with a more favourable outlook on the Water Code prioritising human consumption without impacting tariffs, presented a clear buying opportunity. The onset of El Niño has significantly alleviated conditions, with the Mapocho and Maipo rivers, crucial for the company's water supply, experiencing substantial increases in water flow (see the following charts). In 2023 alone, Aguas Andinas' share price surged by 54%, significantly outperforming the local index that was up 18% in the period, elevating the company to one of the Top 20 holdings in UEM's portfolio.



Source: Aguas Andinas⁵

El Niño and La Niña

May 2024



Source: Aguas Andinas⁵

With the potential onset of La Niña in the second half of 2024, we are diligently monitoring our portfolio. While forecasting the weather is highly complex and challenging and beyond our financial expertise, understanding the impacts of these climate phenomena and the potential for share price dislocations they can create clearly opens up opportunities for UEM.

Eduardo Greca

6 May, 2024

Source Data: ICM Limited

[1] National Oceanic and Atmospheric Administration (NOAA) <https://scijinks.gov/el-nino/>

[2] NOAA https://www.cpc.ncep.noaa.gov/products/analysis_monitoring/lanina/enso_evolution-status-fcsts-web.pdf

[3] Climate Prediction Center <https://iri.columbia.edu/our-expertise/climate/forecasts/enso/current/>

[4] International Research Institute for Climate and Society. <https://iri.columbia.edu/our-expertise/climate/enso/>

[5] Aguas Andinas. <https://www.aguasandinasinversionistas.cl/en/events-presentations/corporate-presentations/2023>

*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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