Charles Jillings
Manager

Utilico Emerging Markets (UEM)

FUND FACTS

Type: Investment trust
Launched: 20/07/2005
Share price: 182.5p
NAV: 198.2p
Market cap: £437.1 million
Total assets: £402.6 million
Yield: 3.3%
Sector: Global Emerging Markets

TOP TEN HOLDINGS

Company	%
Malaysia Airport (MAHB:KL)	8.1%
International Container (ICT:JK)	6.7%
MyEG Services (MYEG:KL)	6.5%
China Gas (0384:HK)	6.2%
Ocean Wilsons (OCN.L)	6.1%
Eastern Water Resources (EASTW:BK)	5.3%
APT Satellite (1045:HK)	4.5%
Asia Satellite (1135:HK)	3.4%
China Everbright (0257:HK)	3.2%
Alupar Investimento (ALUP11:BR)	2.8%

Source: ICM
(as at 30/09/2014)

Built on solid ground

ICM's investment trust targets emerging market infrastructure

RUSS MOULD

The publication in autumn of both the International Monetary Fund's latest *World Economic Outlook* and the World Economic Forum's *Global Competitiveness Report* highlights the importance of infrastructure for any economy. Just as if a company fails to maintain and improve its assets it will lose efficiency and competitiveness, a government must ensure a nation also keeps its edge, to attract investment, create jobs and drive growth.

The IMF paper argues strongly in favour of further, debt-funded public infrastructure investment. It cites potential benefits in terms of GDP growth and also reductions in public debt-to-GDP ratios, providing certain pre-conditions are in place. This seems timely, given yet another cut to the IMF's global growth forecast for 2015, this time from 4.0% to 3.8%.

Public cash is not always the only source of capital. This infrastructure can be privately owned and funded as it can be very attractive from an investment point of view. These big projects can provide near-guaranteed cash flow, and thus dependable income, for long and often pre-defined periods, owing to the lifespan of the assets or the regulatory cycle which attend them. One collective which actively seeks out stakes in quoted infrastructure owners and operators is the **Utilico Emerging Markets (UEM)** investment trust.

CASH IS KING

With some £437 million in assets under management and run out of Bermuda by ICM, the trust is managed by Charles Jillings and team.

'Ninety seven and a half percent of the portfolio is in quoted companies and that's unlikely to change. Unquoted investments can be challenging and hard to manage,' Jillings tells *Shares*. 'And ninety five percent are operational rather than greenfield. We prefer companies that can demonstrate they can perform. Most are cash flow positive and most pay a dividend.' On this final point, Jillings notes the trust has a yield of 3.3% and makes distributions quarterly.

'We build the portfolio bottom up and look for the best investments we can find, but we do look at the top down,' continues the experienced money manager. 'We have only ever had one investment in Russia, none in Argentina and Bolivia. We have to be comfortable in the environment where the company is operating and that there is political support. For example, China is trying to clean up its environment and it is gasifying cities, so we are very positive on **China Gas (0384:HK)**, which is a distributor.'

TIME VALUE

By their very nature, infrastructure projects are long term in nature, although the investment company has no set policy on how long it holds a position. 'Our time horizon changes according to the political climate, how the company's management team performs and how the asset performs but the expectation is we can double our money in five years.'

Jillings and his team focus on a firm's competitive position and the dynamics of its local market before getting down to the nitty gritty of valuation, where enterprise value to multiples of earnings before interest, tax,

depreciation and amortisation (EV/EBITDA), discounted cash flow (DCF) models and dividend yield are preferred tools.

The result is a portfolio with some 80 holdings. The book is managed by industry rather than region. Utilities, communication and transport are the three areas of focus. With regard to the last-named Jillings is quick to emphasise the portfolio invests in ports, airports and toll roads, rather than notoriously volatile airline stocks.

'The team spends a lot of time travelling so we can see it all on the ground, not just a company headquarters,' he adds. 'If it's a port we want to see the rail links, its depth, whether it is tidy – shipping lines want to turn their ships around quickly.'

CURRENCIES AND COSTS

Currency movements have hit performance since March but Jillings explains it is too expensive and time consuming to hedge. To help mitigate this risk, no single pick constitutes more than 10% of the fund, no sector more than a quarter or country more than a third. At the time of writing, China and Hong Kong represent 32% of the assets under management and Brazil and Malaysia 16% apiece.

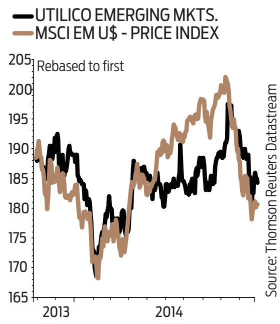
'We like Mexico but cannot find any firms that meet our valuation criteria and we only have small investments in India,' Jillings adds. 'The structure there is very complex and there are 10 or 20 sets of planning requirements so it's tough to be in infrastructure in India.'

The autumn shake-down in risk assets leaves the investment company trading at a 7.9% discount to its net asset value (NAV). Jillings is unflustered. 'Our approach is to be fully invested. If investors are not happy with our performance they can sell the shares,' he says in a matter-of-fact way. 'If the discount has exceeded 10% we have historically looked to buy back shares but there is no hard-and-fast rule.'

Utilico Emerging Markets can use gearing if it wishes and Jillings notes a retail bond offering fleetingly came under consideration. There is a £50 million debt facility but gearing is just 3% at the time of writing.

Potential shareholders should note the annual ongoing charge of 0.65% can be supplemented by a 15% performance fee, based on outperformance relative to a benchmark index, payable half in shares and half in cash. No performance fee can be booked, however, until the trust exceeds a high water mark of 205.8p, based on NAV, which dates back to March 2013.

In 2016 investors have the option to vote to wind up the trust but Jillings is not expecting any shocks, despite the tricky equity market backdrop. 'We see it as a good environment to make investments and it will take a lot to blow us off course,' he concludes. S



Portfolio weighting by sector
(as at 31/08/2014)

Ports	18.2%
Gas	15.0%
Water and waste	11.3%
Electricity	9.7%
Satellites	9.1%
Airports	8.4%
Toll roads	7.7%
Telecoms	3.3%
Other	17.3%

Source: ICM

CUMULATIVE PERFORMANCE (%)