New Model Adviser®

14 April 2014

INVESTMENT TRUSTS

Utilico's Jillings is building bridges in emerging markets

Utilico Emerging Markets investment trust manager Charles Jillings has bypassed the emerging markets bad news story by specialising in the infrastructure space

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The £384 million Utilico Emerging Markets investment trust has delivered robust performance at a time when emerging markets have disappointed. 'People are having a long, hard discussion about the implications of the tapering of quantitative easing on emerging markets but our stocks are more a reflection of domestic growth opportunities,' said manager Charles Jillings.

The trust, which is incorporated in Bermuda, specialises in investing in utility and infrastructure companies in emerging markets. Its shares have returned 26.4% over the past three years, which is a remarkable achievement considering the MSCI Emerging Markets index has fallen by 11%.

Geared to growth

Charles Jillings, who has managed the trust since it was launched in 2005, attributes this to the trust's focus on investments geared to economic growth.

'Our companies are a reflection of the underlying growth in the domestic economy. The top-line growth of our companies tends to be strong and bottom-line earnings are strong. Most of the companies we invest in are paying a dividend,' he said.

Jillings said the trust, which currently has a net yield of 3.4%, only invested in listed, operational companies. 'We are not invested in greenfield sites. We are not investing in 100 acres of land in Mumbai and trying to get planning permission to build a power generator. We are about buying into existing assets,' he said.

UTILICO EMERGING MARKETS

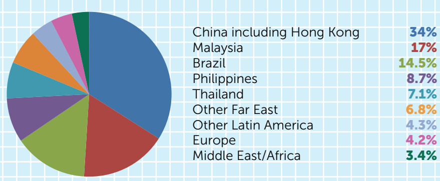
Sector: Global Emerging Markets

Premium/ discount to NAV: -8.1%

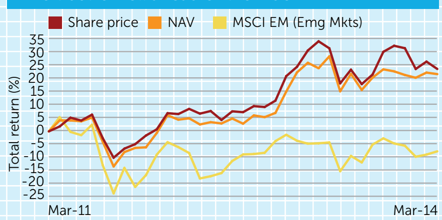
Market cap: £384 million

Net yield: 3.4%

China is the trust's heaviest country weighting



The trust is well ahead of the index



Top 10 holdings

MALAYSIA AIRPORTS HOLDINGS	8.8%
INTL CONTAINER TERMINAL SERVICE	7.6%
EASTERN WATER RESOURCES	6.6%
CHINA GAS HOLDINGS	6.5%
OCEAN WILSONS	5.9%
MYEG	5.7%
ASIA SATELLITE TELECOM HOLDINGS	4.3%
APT SATELLITE HOLDINGS	3.6%
CHINA EVERBRIGHT INTERNATIONAL	3.5%
GASCO	3.2%

Be that as it may, Jillings described the past 12 months as challenging as the trust's share price fell by 2.7%, an improvement on the MSCI Emerging Market index's 9.9% slump but a decline all the same.

'The biggest challenge has been exchange rates. Operationally, most companies are performing well. For example, in the six months to last September, there was a 10% loss as a sterling investor just on currency.

'We don't hedge currencies because it is too difficult. Trying to time hedging is so time-consuming you would have to give up the management of the trust in order to have time to do it,' he said.

Stock specifics

Malaysia is Jillings' second-largest country position at 17% of total assets. The trust's largest single position is Malaysia Airports Holdings, at 8.8%, headquartered at Kuala Lumpur International Airport, from which the ill-fated Malaysia Airlines Flight 370 took off on 8 March. Jillings said: 'It's very tragic and something none of us want to see.

SHANGHAI EXPRESS: The trust is investing in airports, toll roads and water to meet demand in China's biggest city

'It's difficult to see if it will have an effect on the airport in the short term. In the long term, I am sure people will learn lessons.'

China, including Hong Kong, is the biggest country exposure in the trust at about one-third of the total. Jillings plays down current fears about slowing growth in China. 'The Chinese government has more room for manoeuvre than people give it credit for. It fully

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Charles Jillings Utilico Emerging Markets

HIGH FLYER: Utilico's biggest single stock is Malaysia Airport Holdings, based at Kuala Lumpur International Airport

understands the need to maintain a level of significant growth,' he said.

'The government wants to clean up the environment and one of its instruments for change is gas distribution. It is encouraging companies to achieve a high degree of penetration.

'If you look at Shanghai, our investments are trying to fulfil the city's needs for airports, toll roads and water. The city is still growing and the middle-classes are still growing quicker than gross domestic product.'

Brazilian bears

The trust's exposure to China has increased over past years, whereas exposure to Brazil, currently at 14.5%, has decreased. 'Brazil's economy is more challenged. The assets don't offer us as much upside and it has been a weak investment environment.

'It will be interesting to see how the country is positioned on the other side of the election in the autumn,' said Jillings, referring to October's general election, which incumbent president Dilma Rousseff is tipped to win.

However, Jillings said he still saw opportunities in Brazil, particularly on the back of the World Cup in football in the summer and the Rio 2016 Summer Olympics. He said: 'We are invested in a company called CCR, which is a toll road company. It ought to benefit from the general investment in infrastructure.

'The investments going into the airports for the World Cup and the Olympics for the long term will leave Brazil with a legacy whereby it can sustain a higher level of economic activity. If that transpires into toll roads, we should get the spillage.'

Global ideas shopping

Jillings and his team of three analysts are based in London but travel frequently to emerging markets to visit investments and find new ideas. The last country Jillings visited was India. 'India is a small market for us because it is a challenging investment environment, but I did come back with some fresh ideas and one new investment, which was a toll bridge.

'A lot hinges on the elections in April and May. If the opposition can gain a majority, it will be able to drive through change. I think people want to see change, so I am a bit more optimistic than I have been.'

ADVISERVIEW

ANDREW CRAWFORD
Director, GreenSky Wealth

There is a lot to like about the Utilico Emerging Markets investment trust. It has a good track record of excellent returns and offers a good geographical spread. Its headline investment adviser fee is encouragingly low at 0.5% per annum and the dividend yield is healthily above 3%.

The investment strategy is bang on, investing in operational businesses that are highly cash-generative, with in-depth fundamental analysis and a focus on long-term returns.

We do like the infrastructure area from the perspective of its qualities as a bond proxy. Fixed interest has been a difficult area for us to find value in, especially in sovereigns, and infrastructure can be seen as a good low-volatility replacement. Warren Buffett said the ultimate business franchise is an unregulated water company. We also increasingly like emerging markets valuations and are looking for ways to increase exposure to this area.

However, we have not used this investment trust and are unlikely to do so for two reasons. First, the trust is domiciled in Bermuda, which we see as a negative as we perceive the accounting, compliance and regulatory framework as not being as rigorous compared with a European domicile. Second, the performance fee of 15% of outperformance of the benchmark is a little too rich for us. We disapprove of performance fees and rarely make investments in such trusts. This is definitely a trust for investors who are comfortable with these points but not for us.

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ANALYSTVIEW

PAUL LOCKE
Analyst, Westhouse Securities

With government finances for many states still hamstrung, private financing is filling the gap in the utility and infrastructure space. Rising private allocations to the asset class are likely to drive demand and pricing still further.

Utilico Emerging Markets is able to exploit its expertise in this area, and many of its companies enjoy monopolistic market positions, underpinning revenue growth. Specialised asset allocation, driven by stock-specifics, not index weighting, leaves the trust less prone to the mercy of movements in sentiment than its peers.

The trust is the top-performing UK-listed emerging market vehicle over one, three and five years and has a lower level of net asset value volatility than its more index-focused peers, as well as the second-highest yield. We believe the trust is underpriced versus a variety of other income products, such as the often premium-rated Asian income trusts, despite its often comparable or even superior risk/reward profile.

Recent changes in the fee structure, including a performance fee cap of 1.85% of the average net assets of the company, provide a more competitive, shareholder-friendly vehicle.

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