

**Utilico Emerging Markets Limited  
Interim Management Statement  
30 June 2013**

### Quarterly Management Review

Utilico Emerging Markets Limited (“UEM”) published its annual report and accounts for the period to 31 March 2013 on 20 June 2013. UEM has published monthly fact sheets on its website: [www.uem.bm](http://www.uem.bm).

Set out below is the interim management statement (“IMS”) for the period from 1 April to 30 June 2013 containing information that covers this period, and up to the date of publication of this IMS.

### Background

Global economic growth remains weak, with many Western economies continuing to struggle with excessive debt burdens, high unemployment, and a lack of growth. The impact of these sentiments continues to weigh on many Emerging Markets (“EM”) economies, which often have disproportionate exposure to commodity pricing and exports of consumer goods to the Western world. While the US economic outlook seems to be improving modestly, in part boosted by cheap energy from the shale gas revolution, structural issues within the EU have yet to be resolved and growth here remains elusive. The Bank of Japan’s new Governor has launched an aggressive Quantitative Easing (QE) programme which has resulted in significant depreciation of the Japanese Yen. This stimulus of its domestic economy could have wider ramifications for the competitiveness of manufacturing bases across the ASEAN region.

Key EM economies have seen significant political and economic events. In China the new government has fired a warning shot across the banking sector over credit expansion by triggering a temporary liquidity crisis. Interbank market rates spiked to 13.9% on 20 June 2013 from an average below 3.0% for the previous twelve months as the PBoC restricted credit supply. This was a clear statement from the PRC government that it is looking to pre-empt excessive credit growth and curtail the shadow banking system. While this is expected to dampen near-term economic growth marginally (2013 GDP forecasts for China are hovering at about 7.4%), we view this as a positive indication for long-term structural reform of the banking system onto a more sustainable footing.

In Brazil there were mass protests across the country, initially triggered by a planned increase in bus tariffs of 6.7% in Sao Paulo. This resulted in municipal and central governments backtracking on the proposed implementation of tariff increases across not only the transportation sector, but also the energy and other sectors. While the protests have calmed down since the end of the Confederations Cup, the impact of the tariff increase delay will negatively affect several of our investments in the regulated sectors.

From a market perspective, the past three months has seen a volatile performance for EM after an initial strong rally through April and mid-May. The release of the Federal Open Market Committee (FOMC) minutes on 22 May saw US Federal Reserve Chairman Ben Bernanke hinting at the withdrawal of Quantitative Easing measures. This led to severe distortions in international markets as funds repatriated cash and investments back into the US domestic market, triggering significant outflows from most non-US markets.

These outflows have resulted in some significant falls in key EM markets such as Brazil and China, as well as the smaller markets including Thailand and the Philippines. The announcement also sparked a rapid rise of the US Dollar against most currencies, resulting in a similarly rapid depreciation of several EM currencies, including the Brazilian Real which weakened by 9.4% against Sterling during the period. The strengthening of the US Dollar has negatively affected markets that UEM is invested in, but has resulted in some attractive investment opportunities.



## Performance

UEM's net asset value total return (adjusted for the fourth quarter dividend of 1.525p) was down 5.0% over the three months. While disappointing this compares well to the MSCI Emerging Markets Total Return Index (Sterling adjusted) which was down 7.8% in the period.

In June, UEM won the Money Observer Trust Awards for "Best Diversified Emerging Markets Trust 2013".

## Dividends

UEM's fourth quarterly dividend for the year to 31 March 2013 of 1.525p was paid on 5 June 2013.

## Portfolio

UEM's gross assets less current liabilities (excluding debt) at the beginning of the period under review were £452.1m and decreased by £17.8m to £434.3m at the end of June 2013. Ordinary shareholders' funds decreased £27.9m to £415.0m. This performance reflects the wider EM backdrop as discussed above, as well as sector-specific issues such as postponement of tariff increases in the regulated sector in Brazil.

During the period the geographical exposure of the portfolio continued to see China and Hong Kong investments weighting grow to 28.4% while Brazil declined to 21.7%. This is a manifestation of the poor relative performance of the Brazilian-listed investments as compared to China/HK, exacerbated by currency depreciation of the Brazilian Real. We continue to have material investments in Malaysia, Philippines and Thailand.

Within the top ten largest holdings there has been one change, with MyEG Services Bhd replacing Santos Brasil Participacoes. MyEG is the key operator of the E-Government Initiative programme in Malaysia providing the technology platform supporting the roll-out of online transactional services for the government such as road tax renewals.

UEM has been invested in MyEG since 2007, and over the past five years it has delivered EBITDA growth of 34.2% CAGR. In the three months to 30 June 2013 MyEG shares increased by 91.3% on market expectations that the company will benefit materially from the roll-out of sales tax collection units supported by MyEG's platform.

Eastern Water Resources ("Eastwater") share price fell 18.7% in the period, promoting International Container Terminal Services ("ICT") back into the number one position. Eastwater saw CEO Praphant Asava-Aree forced from the Board of Directors, a move which we believe is negative and raises corporate governance concerns that we continue to monitor carefully. By comparison ICT's fall was broadly in line with the wider Philippine stock market.

There were also disappointing performances across the Brazilian listed investments, including Ocean Wilsons Holdings Ltd, Companhia de Concessoes Rodoviaras ("CCR"), and particularly Companhia de Saneamento de Minas Gerais ("COPASA") which dropped 33.6%. This fall reflects wider concerns across the listed Brazilian regulated companies sector as the government deferred tariff increases in the face of widespread protests over inflation.

Aside from MyEG there were strong share price performances at Gasco in Chile and Malaysia Airports Holdings Bhd ("Malaysia Airports"). Gasco shares increased by 24.9% in the period following another very strong quarter of financial results and a further step-up in dividends, while Malaysia Airports shares increased by 9.0% after clarification of the timetable for the KLIA2 expansion plans.

The remainder of the top ten were broadly unchanged on year end March 2013.



### Bank debt

UEM increased its bank debt from £9.2m to £19.3m during the period under review. The bank debt was drawn £15.0m in Sterling and £4.3m in Euro's.

### Share price and NAV

UEM's share price reduced from 191.20p at 31 March 2013 to 173.40p at 30 June 2013, a decrease of 9.3% in the period. This includes the impact of the 1.525p dividend paid in June. Adjusting for the dividend the underlying decline was 8.5%. UEM's discount widened from 7.0% at 31 March 2013 to 10.5% at 30 June 2013.

In the period UEM bought back and cancelled 1.3m shares at 172.00p. Since the period end UEM has bought back and cancelled a further 985,000 shares at 172.00p\*

### Outlook

The investment environment remains challenging with ongoing uncertainty on political and financial reforms throughout both developed and emerging markets. This volatility has been amplified in EM by US domestic policy and the impending withdrawal of QE, and is more evident in the currency markets. Notwithstanding this, we are positive on UEM's long term prospects given its exposure towards essential services in growing economies offering stable and generally inflation protected returns.

	30 June 2013	31 March 2013
Equity holders' funds	£415.0m	£442.9m
Gross assets less liabilities excluding loans	£434.3m	£452.1m
Cash	£0.3m	£2.6m
Bank debt	£19.3m	£9.2m
Gearing on net assets	4.6%	1.5%

Ordinary Shares	30 June 2013	31 March 2013
NAV (cum income)	193.73p	205.49p
Share price	173.40p	191.20p
Discount to undiluted NAV	10.5%	7.0%
Shares in issue	214,228,793	215,528,793

\*As at 03 July 2013 the shares in issue are 213,243,793



<b>Geographical Split of Investments</b>	<b>30 June 2013</b>	<b>31 March 2013</b>
China	28.4%	26.7%
Brazil	21.7%	24.5%
Malaysia	14.0%	10.0%
Philippines	10.0%	10.8%
Thailand	9.0%	11.2%
Other Asia	4.9%	4.9%
Other Latin America	4.1%	3.5%
Eastern Europe	3.1%	3.2%
Middle East/Africa	2.7%	3.2%
India	1.1%	1.0%
North America/Other	1.0%	1.0%
	100%	100%
<b>Sectoral Split of Investments</b>	<b>30 June 2013</b>	<b>31 March 2013</b>
Ports	22.1%	23.1%
Water & Waste	18.4%	22.1%
Gas	11.4%	10.3%
Electricity	8.3%	7.8%
Toll Roads	8.0%	9.3%
Airports	7.8%	6.5%
Other	6.3%	7.3%
Satellites	6.2%	5.2%
Other Infrastructure	3.8%	1.9%
Infrastructure Investment Funds	3.4%	3.3%
Renewables	1.9%	1.3%
Telecoms	1.4%	1.0%
Post Office	0.8%	0.7%
Infrastructure IT	0.2%	0.2%
	100%	100%

<b>Top 10 Holdings as % of Gross Assets</b>	<b>30 June 2013</b>	<b>31 March 2013</b>
1 Intl Container Terminal Services Inc.	9.1%	10.0%
2 Eastern Water Resources PCL	8.9%	11.2%
3 Malaysia Airport Holdings Bhd	7.7%	6.5%
4 Ocean Wilsons Holdings Limited	5.3%	5.6%
5 China Gas Holdings Ltd	4.7%	4.4%
6 Asia Satellite Telecommunications Holdings Ltd	4.0%	3.9%
7 My EG Services	3.8%	1.8%
8 Cia de Saneamento de Minas Gerais (COPASA)	3.6%	5.3%
9 Gasco S.A.	3.2%	2.6%
10 Companhia de Concessoes Rodoviaras S.A. (CCR)	2.8%	3.4%

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