The Daily Telegraph

The Daily Telegraph Saturday 2 February 2019

Investing
Fund of the week

'My biggest success came from a traffic jam in Brazil'

Charles Jillings of Utilico Emerging Markets tells *Adam Williams* why it pays to visit every company in person

The emerging markets of Asia and Latin America can be attractive to investors seeking higher returns, but many countries in these regions are prone to political and economic instability.

Charles Jillings of the £498m Utilico Emerging Markets trust, which currently trades at a discount of around 11pc, told *Telegraph Money* why he ignores short-term currency fluctuations, how elections can change a country's appeal and why being stuck in a traffic jam helped him find a successful investment.

Who is the fund for?

This is a long-term trust aimed at UK investors that looks to deliver a good yield. We invest in utilities and infrastructure in the developing world. Our portfolio includes ports, airports, roads and TV towers.

What do you look for in your investments?

More than 97pc of the fund is invested in listed companies. We mainly look at businesses that are up and running and generating cash. We look at the quality of the asset, the management team and the country.

Does investing in infrastructure mitigate some of the political risks in emerging markets?

No, I think it's a feature of these markets. We have to invest time to understand the local political drivers.

Look at Thailand. We sold out due to the political difficulties in recent years. Now elections are coming around and it is beginning to look interesting again.

What do you try to avoid?

We flag any projects that would not be politically supported. If you look at China, we would avoid fossil fuel power generation because we know China is determined to clean up its environment and it has exerted pressure on fossil fuel power generation. That can open other opportunities, so we are supporters of firms that are tackling waste in China.

You have high exposure to Brazil. Why is the country so appealing?

Brazil is our largest investment today, but when we started in 2005 it was nearer 35pc of the portfolio. We then sold down to the point where Brazil was below 10pc. It was only 12 months ago that we developed a much higher appetite again as the currency was under strain because of the election.

Broadly we look to have no more than 30pc of the fund in any country, and no more than 10pc in any one investment. We've had investments reach 10pc, but we generally want to avoid overexposure to any one asset.

What has been your biggest success?

Rumo, a railway line operator in Brazil. One of its assets is a line between the Mato Grosso state and the Port de Santos. The state is the main producer of soya in Brazil and is seeing increased production, which means greater demand for transport. Rumo's new management team identified a number of changes, which have improved the margins. That has been a strong performer.

Do you visit each company in person?

We visit most of our investments over a two-year cycle. When we went to Mato Grosso to see Rumo we were stuck in traffic for six hours among a load of trucks.

That told me that the railway line was going to have an advantage.

It's simple things like that. It validates what we see on paper.

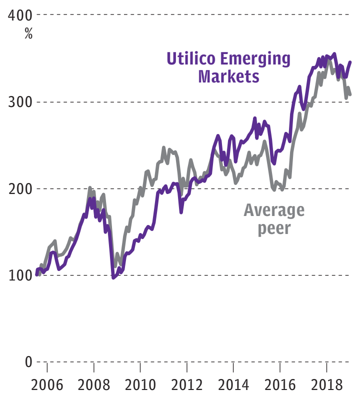
CV: Charles Jillings

YEARS MANAGING FUND: 14
ANNUALISED RETURN: 10.6PC

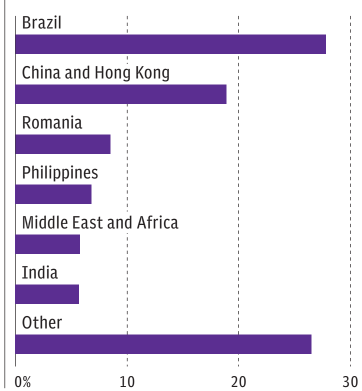
Mr Jillings qualified as a chartered accountant at the University of Cape Town and has more than 30 years of experience in international financial markets. He joined Utilico's parent company ICM Group in 1995.

CHARLES JILLINGS
UTILICO EMERGING MARKETS

Versus average peer



Where does the fund invest?



SOURCE: FE ANALYTICS

Key facts

Launch date	July 2005
Return since manager start (2005)	288pc
Total return since launch (2005) (No capital growth figure available)	288pc
Total return year to date	5.8pc
Annual charge	1.1pc

Top 10 holdings (as of 31/12/2018)

1. International Container Services	5.1pc
2. Ocean Wilsons	4.4pc
3. Energisa	3.6pc
4. Alupar Investimento	3.5pc
5=. Comgas	3.4pc
5=. China Resources Gas	3.4pc
7. Rumo	3pc
8. Yuexiu Transport Infrastructure	2.8pc
9. Engie Energia Chile	2.5pc
10. Malaysia Airport Holdings	2.4pc

IN FOCUS: INTERNATIONAL CONTAINER SERVICES 'HIGH MARGINS FOR A PORT'

International Container Services started out as a port company in the Philippines, but it has expanded across Africa, Asia, Europe and the Middle East.

Throughout this expansion it has shown how it can optimise and grow port operations across the world. When we started investing, more than 60pc of the firm's business was in the Philippines, whereas that figure is about 30pc today.

The attraction of this company is that it has a fabulous management team that understands the need for margins. The firm targets a 50pc profit margin, which is good for a port operator.

Since we started investing 10 years ago, the company has been adding ports across the globe to its portfolio. There have been three key benefits to this growth: the company has added capacity by buying new sites, it has grown the ports it has purchased and it has stimulated business in each country by adapting its sites to allow for shipping containers to be used.

The company is disciplined. In the past three years turnover has been growing by 7pc per year and margins have improved from 45pc to 47pc.

What has been your biggest mistake?

We invested in satellite companies, but the rate of technology change has been difficult for the sector. We've been an investor in AsiaSat for some time but have now pulled back quite significantly.

How much do currency fluctuations play a part?

Hedging a currency is too expensive and most of our investors don't want to see that. If we have a strong view then we may slow down certain investments, but in the long term fluctuations are less important.

Do you have your own money invested?

I do, I'm a shareholder.

How are you paid?

The trust has an ongoing charge of 1.1pc and the senior management share in the performance fees.

What would you have been if you weren't a fund manager?

An architect. I've always enjoyed solving mathematical problems.