11 June 2012

Buy

Utilico Emerging Markets*

Strong results for the year to 31 March 2012

Price
166.5p

NAV (cum income)
176.5p

Discount
5.6%

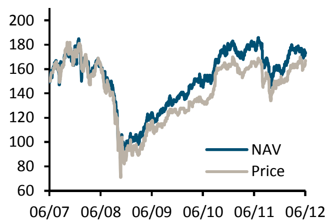
Yield (paid gross)
3.3%

Key data

Ticker	UEM
Listing	Main
Domicile	Bermuda
Market cap (£m)	357
Fund managers	ICM, Charles Jillings
Launch date	20 July 2005
Continuation vote	September 2016
Xd dates	Aug, Nov, Feb, May
Dividend pay dates	Sep, Dec, Mar, Jun
Ann Mgmt Fee	0.5% (gross assets)
Perf fee	15% over b'mark with HWM
Gearing(30 April 2012)	3%
12m price range (p)	134 – 170
12m discount range (%)	13.1 – 2.6

FUND OBJECTIVE: To provide long-term total returns by investing predominantly in infrastructure, utility and related sectors, mainly in emerging markets.

Price & NAV, five years (p)



Total return performance (GBP, %)

Over:	1yr	3yr	5yr
NAV	-1.6	53.1	36.1
Share price	4.3	62.6	32.8
MSCI EM	-13.5	29.5	30.3

Pricing: Morningstar as of 8 Jun 2012

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Utilico Emerging Markets (UEM) has published another very strong set of yearly results. Most of the portfolio companies performed strongly and the fund comfortably outperformed the MSCI Emerging Market index in the year to 31 March 2012. The final dividend was increased and, going forward, the Board intends to make income distributions quarterly, rather than semi-annually. Having migrated from AIM to the Official List in October 2011, this month the fund was promoted to the FTSE250 index (effective 18 June 2012).

Results for the year to 31 March 2012 – main points:

- **Strong NAV outperformance.** The fund's 3.1% NAV total return was significantly ahead of the -8.2% return from the MSCI Emerging Market index. UEM's share price rose 4.0% over the period, reducing the discount from 10.0% to 6.6%.
- **Strong annualised returns since inception.** UEM has achieved an annualised NAV total return of 12.3% since its inception in July 2005 to the year end 31 March 2012, broadly in line with the MSCI Emerging Markets index. However, these returns were achieved with much lower volatility and the additional attraction of a yield.
- **EPS down.** Revenue earnings per share of 4.12p were lower than the 5.61p reported the previous year. This was due to several factors, including the one-off costs of migrating to the Main Market and the reduction and deferral of a number of dividends due from portfolio companies.
- **Dividends up 5.8%.** The final dividend was increased from 1.45p to 1.75p, giving a total dividend for FY2012 of 5.5p, vs. 5.2p the previous year. Given the lower earnings during the year, part of the dividend was funded by capital reserves.
- **Quarterly dividends.** The Board intends to commence paying dividends in the current financial year on a quarterly basis, being aware of the increasing emphasis investors are placing on dividend income. It is expected that the first quarterly dividend will be declared in August and paid in September 2012.
- **Modest gearing.** An increased, £50m bank facility was secured during the period. Having reduced gearing to nil at 31 January 2012, this was then modestly increased to 1.6% at 31 March 2012. The Board expects gearing to increase further, especially if markets weaken, as the managers seek to buy long-term strategic investments.
- **3.1m shares bought back.** The shares, representing 1.4% of the outstanding share capital at 1 April 2011, were bought back at an average cost of 160p. The Board makes the point that share buy-backs are viewed as an investment decision.
- **Independent Board.** Charles Jillings, the portfolio manager, stood down from the Board. The Board is now entirely independent, strengthening corporate governance.
- **FTSE250 inclusion.** The fund's listing was moved from AIM to the Official List in October 2011. Since the period end, the fund has been promoted to the FTSE250 index.
- **Outlook.** The managers are confident that they are able to identify investments which should prove attractive over the longer term. They remain convinced the utility and infrastructure sectors offer a balanced, logical, growth-orientated exposure to the growing GDP of emerging markets.

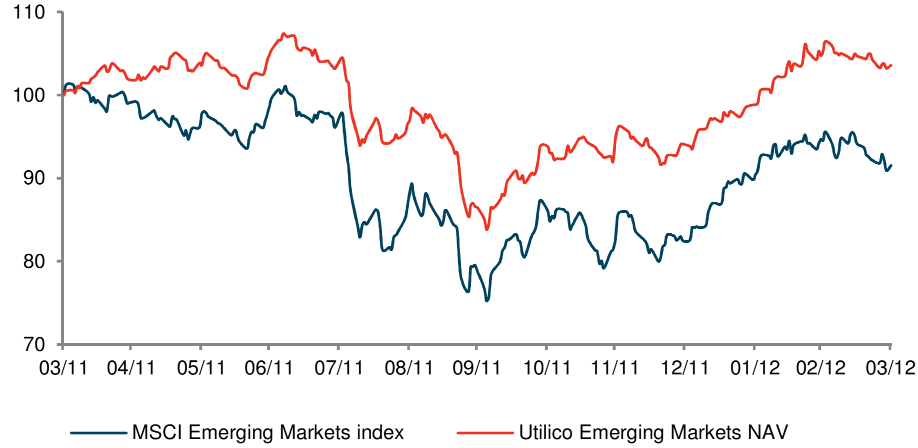
*Westhouse acts as financial adviser and broker to this company and has agreed to publish research on it at least annually.

Performance

NAV TR +3.1% vs. MSCI Emerging Markets index -8.2%

The portfolio demonstrated its defensive qualities once again in the year to 31 March 2012. Over the period, the fund posted a small positive NAV total return of +3.1%, which stands out in the context of a weak broader market – the MSCI Emerging Markets index posted a 8.2% negative return over the same period.

Figure 1: GBP total return, indexed to 100, year to 31 March 2012



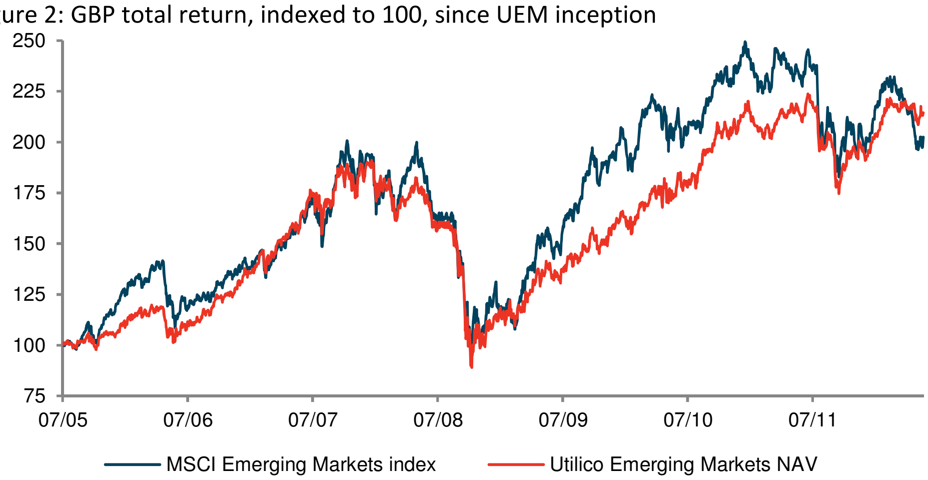
Source: Morningstar

Lower volatility returns

Emerging market returns with lower volatility; 12.3% annualised return

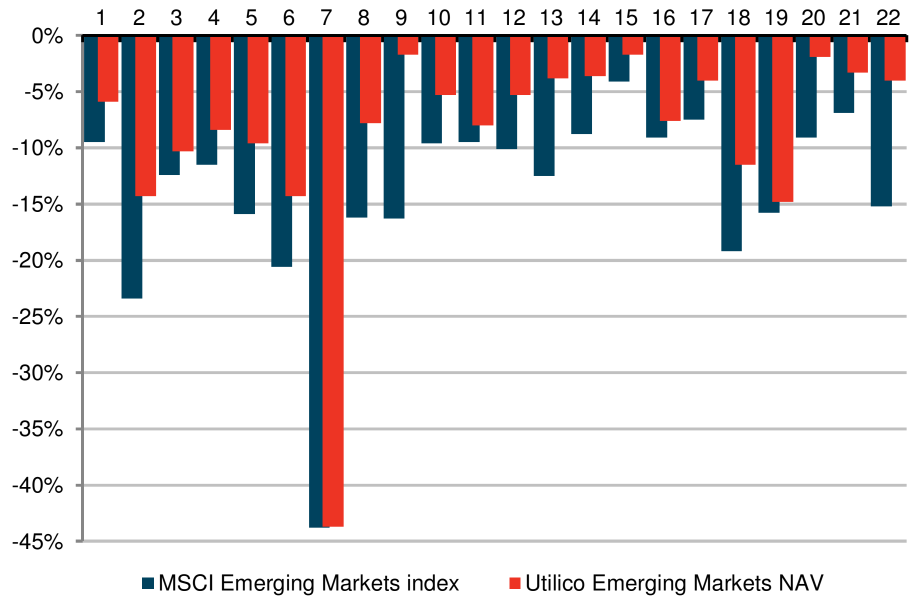
Longer term, the fund has performed broadly in line with the MSCI Emerging Markets index, delivering an annualised return of 12.3% since the fund's inception in July 2005 to 31 March 2012. However, these returns were achieved with consistently and significantly lower volatility, the fund holding up better in every single period of material market decline.

Figure 2: GBP total return, indexed to 100, since UEM inception



Source: Morningstar

Figure 3: UEM vs. MSCI Emerging Markets index, % declines (GBP total return)



1. 03/10/05-27/10/05
2. 10/05/06-13/06/06
3. 18/07/07-17/08/07
4. 29/10/07-27/11/07
5. 06/12/07-22/01/08
6. 19/05/08-15/07/08
7. 31/08/08-27/10/08
8. 04/11/08-20/11/08
9. 06/01/09-06/03/09
10. 07/06/09-23/06/09
11. 14/10/09-03/11/09
12. 10/01/10-08/02/10
13. 07/04/10-25/05/10
14. 21/06/10-04/07/10
15. 09/11/10-23/11/10
16. 05/01/11-24/02/11
17. 04/04/11-20/06/11
18. 04/07/11-19/08/11
19. 01/09/11-04/10/11
20. 28/10/11-25/11/11
21. 05/12/11-19/12/11
22. 13/03/12-23/05/12

Source: Morningstar

Peer group comparison

Top performing fund in the emerging markets sector

UEM's lower beta qualities have helped it achieve a consistently strong NAV performance vs. the MSCI Emerging Markets index and its peers in the broader emerging markets sector. UEM is currently the top performing fund in the sector over three months, year-to-date, one year and three years. Over five years, UEM is ranked third.

Trading on a discount despite strong performance and 3.3% yield

Despite UEM's outperformance, it is currently trading on a discount

Despite UEM's outperformance, lower volatility returns, and its status as one of only two yielding funds in the sector, UEM is currently trading on a discount. In contrast, JPMorgan Emerging Markets Income (JEMI), the other yielding fund, is trading on a 2% premium. While the JEMI yield is indeed higher, we see little reason why UEM should not attract a similar rating.

Table 1: Global Emerging Markets sector – NAV total returns (GBP, %)

Epic	Name	Discount (cum inc)	Yield	Mkt cap (£m)	3m	Rk	YTD	Rk	1yr	Rk	3yr	Rk	5yr	Rk
ADMF	Advance Developing Markets	-6.7	*0.0*	315	*-10.9*	5	*0.5*	5	*-17.6*	6	*22.5*	5	*3.1*	5
GSS	Genesis Emerging Markets	-7.9	*0.0*	629	*-6.6*	3	*3.2*	3	*-9.6*	3	*46.9*	2	*46.3*	2
JMG	JPMorgan Emerging Markets	-8.6	*0.7*	604	*-6.6*	3	*2.7*	4	*-9.6*	3	*37.2*	4	*31.2*	4
JEMI	JPM Global Emg Markets Income	1.7	*4.4*	182	*-6.9*	2	*4.8*	2	*-3.0*	2	-	-	-	-
TEM	Templeton Emerging Markets	-7.6	*0.8*	1,748	*-12.5*	6	*-2.6*	6	*-15.0*	5	*40.2*	3	*51.5*	1
UEM	**Utilico Emerging Markets**	**-5.6**	***3.3***	**360**	***-2.0***	**1**	***9.6***	**1**	***-1.2***	**1**	***53.8***	**1**	***36.7***	**3**
	MSCI Emerging Markets index				*-10.2*		*0.9*		*-13.7*		*29.1*		*30.0*	

Source: Morningstar as of 7 June 2012

Portfolio update

Year to 31 March 2012

Investments/realisations

Over the year the managers invested £84.7m and realised £123.0m from sales. Within the top ten investments they:

- invested £2.8m in Santos Brazil
- realised £13.8m in International Container Terminals (ICT)
- realised £11.7m in Ocean Wilsons
- realised £9.4m in Malaysia Airport (MAHB)

New entrants to the top 10:

- **Asia Satellite Telecommunications Holdings (AsiaSat)** – price rose 31% over the period
- **Tractebel Energia S.A. (Tractebel)** – further investment during the year
- **Infrastructure India plc (IIP)** – UEM exchanged its direct investment in wind power generator, Indian Energy (IEL.L) for IIP shares. This transaction resulted in a substantial increase in UEM's investment in IIP.

Falling out of the top 10:

- **Puncak Niaga Holdings Berhad (Puncak)** - Puncak, previously number eight in the top ten, saw its share price fall 38.9% in the year to March 2012. This disappointing performance reflected the uncertainty regarding unfulfilled contractual obligations by the State of Selangor over tariff increases and ineffective action by the Federal government to implement wider industry restructuring. Puncak, a Malaysian water treatment and supply company, has begun to diversify into the oil & gas sector while legal action against the State continues. The share price has been volatile and UEM has taken advantage of this to reduce exposure by selling into market peaks.
- **Sichuan Expressway Co. Limited**, the portfolio's tenth largest holding last year, saw its share price fall 44.4% over the year following the Chinese government's nationwide review of all toll road returns.
- **AES Tiete S.A.,** which was previously number six in the top ten, performed well in the year. However, with tariff risks increasing, the UEM managers took the decision to sell down their holding.

Country exposures and fund manager views

- The geographic split of investments has remained steady, with the exception of the reduced exposure to Malaysia. This reduction was due to weaker share prices and the portfolio realisations of Malaysian holdings, MAHB and Puncak.
- **Brazil** remains UEM's top country of investment, with a 32% weighting at the period end. The managers remain of the view that significant investment in the offshore oil & gas industry, firm commodity prices, new infrastructure, recent and further privatisations, the 2014 football World Cup and 2016 Olympics will all provide a positive backdrop to the Brazilian economy. They expect challenges along the way, but believe there are opportunities too.
- **China** represents 20% of UEM's portfolio and remains a challenging opportunity. As such, the managers have spread the risk over a wider number of investments than in other countries, which is why only one company, AsiaSat, is in the top ten. UEM holds a number of toll road investments. However, the Chinese government's nationwide review of all toll road returns resulted in share price falls across the sector which clearly

caught the markets by surprise and was a disappointment. UEM's toll road investments in China saw share price falls of between 13.9% and 44.4% over the 12 months.

- The managers increased their exposure to the **Philippines** from 9.9% to 11.7%, principally driven by their biggest investment, International Container Terminal Services Inc. (ICT). ICT's share price surged 55.6% in the year to 31 March 2012.
- **Thailand** remains the fifth largest country of investment at 6.8%. Thailand has faced significant challenges following the devastating floods that began in July 2011 and persisted until January 2012. However, the country's ability to recover has been remarkable. Eastern Water Resources PCL (EastWater), one of the top ten investments, saw its share price rise 26.3% over the 12 months under review.

Sectoral changes

- Sectoral changes have been minimal.
- The toll road investments reduced from 14.5% to 10.7% mainly due to the underperformance of the Chinese toll road operators.
- The airport sector reduced as a result of weaker share prices and the sales of MAHB.

Portfolio capital return

- The portfolio gains in the second half of the year of £61.3m reversed the losses in the first half of £51.9m. The total year on year gain was £9.4m.

Portfolio income

- UEM's revenue income reduced from £15.2m to £12.7m over the period. This was in part due to reduced and deferred dividend payments. Within the top ten, EastWater's final dividend of £1.0m was delayed into the next financial year. This should however balance out over time.

Derivatives

- The £0.6m gains on the options strategy in the first half were reversed in the second half as the market recovered strongly. This resulted in losses for the year of £3.2m.
- The fund managers have operated a strategic market position via the purchase and sale of equity index put and call options, principally on the S&P500 Index. The level of the position is kept under constant review and will depend upon several factors, including the relative performance of markets, the price of options as compared to the market, and the managers' views regarding future volatility and market movements.
- As at 31 March 2012, UEM's net position was 600 S&P put options. In addition, UEM had sold 400 call options. The total position was valued at £12.4m at year end.

Currency

- Currency was a material factor in the year to 31 March 2012, with the Brazilian Real depreciating by 11.8%. As Brazil is the largest geographical weighting in the portfolio (32%), this has had a negative effect in Sterling terms.

Gearing

- Having reduced bank debt to nil at 31 January 2012, the managers modestly increased their usage to £4.4m (1.6%) at 31 March 2012. They expect to access bank debt further as they seek to buy long-term strategic investments, especially if markets weaken.

Review of the largest portfolio holdings

Year to 31 March 2012

1	International Container Terminal Services, Inc. (ICT)	Philippines	Global container port operator	Mkt cap: £1,853m	Holding: 9.5%

About the company

ICT manages and operates container terminals in the Philippines and across the world, operating in 14 countries, including Brazil, Poland, Japan, China, Indonesia, Argentina, Syria and Georgia.

The company's strategy is to focus primarily on small to medium-sized terminals – less than 1.5m TEUs (20 ft equivalent units) per year – where the expensive civil infrastructure is already in place. This allows ICT to utilise their management expertise to rapidly increase port throughput.

Business performance

ICT's impressive FY2011 results saw revenues increase 26.6%, driven by strong TEU of 24.5% and an improvement in TEU yields. EBITDA increased by 13.6% and net income by 32.7%

Share price performance

Over the period, the share price increased by an impressive 55.6%.

Transactions in the shares

The managers reduced the holding in ICT to both realise gains and to bring it back under 10% of UEM's portfolio at that time.

Fund manager view

With three new terminals expected to come on line over the next two years, and ICT actively reviewing additional terminals within the emerging markets to add to its current portfolio, further upside is expected as the growth prospects for ICT remain sound in the UEM managers' view.

2	Malaysia Airport Holdings Berhad (MAHB)	Malaysia	Airport operator	Mkt cap: £1,444m	Holding: 7.8%

About the company

MAHB is the sole civilian airport operator in Malaysia. It operates 39 airports including the country's largest airport, Kuala Lumpur (KLIA), which accounts for 85% of the company's profits.

Revenue growth is driven by air traffic volume and in particular by the growth in the low cost travel market, which will be enhanced once the new low-cost carrier terminal, KLIA2 is completed in April 2013.

Currently, MAHB has overseas investments in India, Turkey, the Maldives and China where strong country dynamics should create a significant increase in air traffic growth.

Business performance

2011 produced a solid set of results with a 6.7% increase in revenues driven by a 10.7% increase in passenger numbers to 64m.

EBITDA increased by 5.2% whilst net profit increased 9.4%.

An increased dividend of 12.1% was declared in the year.

However, the announced delay and increase in costs of MAHB's new low cost carrier terminal, KLIA2 and third runway held the shares back. KLIA2 is now expected to be completed in April 2013. To fund the increased costs, MAHB placed new shares in the market at MYR5.60 in February this year.

Share price performance

Over the period, the share price decreased by 4.4%.

Transactions in the shares

The UEM managers foresaw the weakness in the shares and exited 23.2% of the shareholding at an average of MYR6.16 per share when markets were firmer. MAHB's share price ended the period at MYR5.81.

3	Ocean Wilsons Holdings Limited (Ocean Wilsons)	Brazil	Port operator, provider of shipping services and global investment fund	Mkt cap: £420m	Holding: 7.4%

About the company

Ocean Wilsons is a Bermuda company listed on the London and Bermuda Stock Exchanges. It has a 58.3% stake in Wilson Sons, a listed Brazilian maritime services provider. In addition, it owns a managed investment portfolio which had US$229.4m AUM at 31 December 2011.

Wilson Sons operates a broad span of maritime support services from port operations (Tecon Rio Grande and Tecon Salvador) to shipbuilding and is currently one of the market leaders within the Brazilian towage market.

Business performance

During 2011 Ocean Wilsons' revenues increased by 21.3% driven by higher yielding imports as well as increased activity within the offshore towage business which is benefiting from the strong growth seen within the Brazilian oil & gas sector.

However, the weak performance of the investment portfolio, due to the difficult and challenging markets seen in 2011, resulted in negative net income of US$8.7m.

The dividend for the year was reduced by 21%.

Share price performance

During the year, the share price increased by 3.5%.

Fund manager view

The UEM managers remain frustrated by the compromised corporate structure of Ocean Wilson and the weak corporate governance. They have raised the issue of these deficiencies to the attention of the board of Ocean Wilsons.

4	Eastern Water Resources PCL (EastWater)	Thailand	Water treatment and supply	Mkt cap: £253m	Holding: 6.8%

About the company

EastWater operates the main water pipeline systems which supply untreated water (so called "raw water") to Thailand's industrialised Eastern Seaboard.

In addition the company has built up a treated water supply business which operates water treatment and supply concessions in nine separate areas.

Business performance

In the financial year to December 2011, raw water volumes grew by 6.8%, even though the country was affected by severe flooding in the latter half of the year. As tariffs have effectively been frozen since 2009, this growth saw group turnover increase by 6.2% on an underlying basis (excluding a one-off major construction project in 2010).

Good cost control saw normalised earnings increase by 18.6% in 2010, and dividends increased by 10.5%.

Thus far in 2012, EastWater continues to perform well, reporting growth of 5.6% in raw water volumes in the first quarter. At the same time financial prospects are encouraging as tariff increases of 9.8% are being implemented across the customer base, with further scheduled rises in 2013 and 2014.

Share price performance

Over the period, EastWater's share price increased by 26.3%, a significant performance given the challenging conditions and the 31.0% performance the previous year.

5	Companhia de Saneamento de Minas Gerais (Copasa)	Brazil	Water treatment and supply	Mkt cap: £1,678m	Holding: 5.9%

About the company

Copasa is a water and sewerage company serving the state of Minas Gerais, Brazil's second most populated state. Copasa supplies a population of 13.6m people with clean water, and provides waste water treatment and disposal for 8.3m people.

Business performance

In the financial year to December 2011, water and wastewater treatment volumes grew by 3.5% and 5.3%, respectively.

While water tariffs remained broadly flat, sewage tariffs benefited from higher banding as roll-out targets were met, resulting in an effective tariff increase of 15.4%.

The growth in water and waste water revenues was diluted by a reduction in lower-margin construction revenue, with Copasa reporting group turnover growth of 4.5% in 2011.

Cost control allowed normalised earnings growth of 11.0%, although dividends were reduced by 31.8% as the company sought to retain cash to maintain a healthy balance sheet.

Thus far in 2012, operational trends are similar to last year, with water and sewage volumes up 3.2% and 6.6%, respectively.

Share price performance

Over the period, Copasa's share price increased by an impressive 56.8%.

Fund manager view

With ongoing expansion opportunities in sewage treatment, the UEM managers continue to view Copasa as a good investment.

6	Santos Brasil Participacoes S.A. (Santos)	Brazil	Port operator	Mkt cap: £1,435m	Holding: 3.9%

About the company

Santos is one of the major container handling and logistics service providers in Brazil, currently being responsible for the throughput of approximately 25% of the container volumes in Brazil.

Santos has three container terminals with the primary terminal being Tecon Santos in Sao Paulo.

Tecon Santos, which operates an integrated port logistics unit as well as one of the largest vehicle terminals in the country, has a strong market position as it is one of the only terminals within San Paulo to have spare capacity to serve Brazil's growing import and export markets.

Business performance

During 2011, the company saw revenues increase by 29.9% driven by a 30.2% increase in TEU volumes.

EBITDA increased 47.3% on the back of improved efficiencies, while net income for the period was up 120.2%.

Share price performance

Santos' share price increased by 21.9% over the period.

Fund manager view

Santos is one of the only operating port terminals in the Port of Santos to have capacity, which means it is well positioned to capitalise on the expected continued strong export and import market currently being experienced in Brazil. The UEM managers therefore expect the shares to continue to do well in the near term.

7	Asia Satellite Telecommunications Holdings Limited (AsiaSat)	China	Satellite operator	Mkt cap: £598m	Holding: 3.1%

About the company

AsiaSat is an owner and operator of telecommunications satellites. It has four satellites, broadcasting over 500 television and radio channels to over 50 countries in the Asia-Pacific region.

In recent years, the company has seen strong demand for its services, particularly from India, where changes in regulation have driven exponential growth in pay-tv subscribers.

AsiaSat has been a constituent of the UEM portfolio since 2005 and is a typical UEM investment; it has been a relatively under-researched company.

The two joint major shareholders, CITIC Group Corporation and General Electric Company, hold 74.4% through a 50/50 owned joint venture company. Aberdeen Asset Management holds 4.0% and UEM holds 1.9%.

Business performance

AsiaSat performed extremely well during 2011 and has seen its transponder utilisation rate rise from 73% to 82%.

Revenues increased by 18% and net profit for the year also rose 18% to HK$822.6m. This was despite HK$105.5m of pre-tax operating and impairment losses in a joint venture in Taiwan that the company has agreed to divest.

The company successfully launched a new satellite at the end of 2011, and has ordered two further satellites to be launched in 2014. The company is debt free and has considerable cash balances.

Share price performance

AsiaSat's share price rose 31.0% over the year to 31 March 2012.

In early April, AsiaSat announced a proposal to privatise the company, at HK$22.0 vs. the price at 31 March 2012 of HK$19.0, representing a 15.8% uplift. This offer was increased to HK$23.5 following representations from shareholders, including UEM.

Fund manager view

The UEM fund managers believe the latest offer still undervalues AsiaSat, as at HK$23.50 the historic EV/EBITDA is 5.2x and the P/E ratio is 11.2x. They do not believe these ratios are reflective of a company that grew its EPS by an average of 19.3% pa over the last three years.

8	Companhia de Concessoes Rodoviarias S.A. (CCR)	Brazil	Toll road operator	Mkt cap: £8,922m	Holding: 3.0%

About the company

CCR is Brazil's largest toll road operating company. It currently manages over 2,400km (including SPVias) of the country's highways which represents around 6% of the country's privatised toll roads.

CCR manages eight concessions in the states of Sao Paulo, Rio and Parana, with stakes in other investments including the management and operation of a subway contract for the Sao Paulo Metro.

Business performance

During 2011, revenue increased 21.2% driven by a 10.8% increase in traffic volumes.

EBITDA increased by 29.9%, which flowed through to the bottom line, resulting in a 33.9% increase in net income.

CCR's strong cash generative nature enables it to have an 89% dividend pay-out ratio.

Share price performance

Over the period, the share price increased by 24.7%.

Utilico view

Over the course of 2011, Brazil saw a number of privatisation auctions for toll roads and airports. UEM's managers were encouraged that CCR's management did not overbid for any of the three airport concessions that came to market.

9	Tractebel Energia S.A. (Tractebel)	Brazil	Electricity generation	Mkt cap: £7,303m	Holding: 3.0%

About the company

Tractebel is Brazil's largest private sector energy generation company. It operates 6.9GW of installed generating capacity, accounting for c.7% of Brazil's total market.

The majority (80%) of this capacity is hydroelectric, mostly based in the south-eastern regions including Parana, Santa Catarina and Rio Grande de Sul.

The remaining capacity is mainly thermal plants, as well as some smaller biomass and wind assets.

The company is controlled by GDF Suez via International Power's 68.7% stake.

Business performance

During 2011, group revenues increased by 5.5%, mainly driven by a 9.0% increase in average contracted rates.

Significantly, a greater proportion of energy sales were provided by higher-margin hydro generation which combined with strong cash flow, boosted core EPS growth to 20.7%.

Reported EPS grew 19.5%, with modest dilution due to a favourable ruling on a lawsuit in 2010.

With limited near-term investment requirements Tractebel paid out 100% of earnings, resulting in a 115% uplift in dividends vs. 2010.

Share price performance

Over the period, Tractebel's share price increased by 18.4%.

Transactions in the shares

The managers increased their investment in this company during the year.

Fund manager view

The UEM managers believe Tractebel is well positioned to grow its activities in the Brazilian generation and transmissions sectors.

10 Infrastructure India plc (IIP)	India	Infrastructure investment company	Mkt cap: £142m	Holding: 2.8%

About the company

IIP is an Isle of Man closed-ended investment company that invests in infrastructure projects in India with a particular emphasis on assets in the broader sectors of energy and transport.

Its main investment is a 100% holding in Vikram Logistics and Maritime Services Private Ltd (VLMS), a supply chain transportation and container infrastructure company with substantial growth potential.

IIP also owns a wind farm and has interests in two hydro power companies and a toll road.

UEM acquired its original holding in September 2010 and then contributed its investment in Indian energy to IIP in exchange for shares. As a result of the transaction, UEM now holds 7.6% of the enlarged group.

Company performance

Given the challenging and difficult market in which IIP operates, the six months results to 30 September 2011 reflected a loss in net investment income of £0.3m due to fair value adjustments.

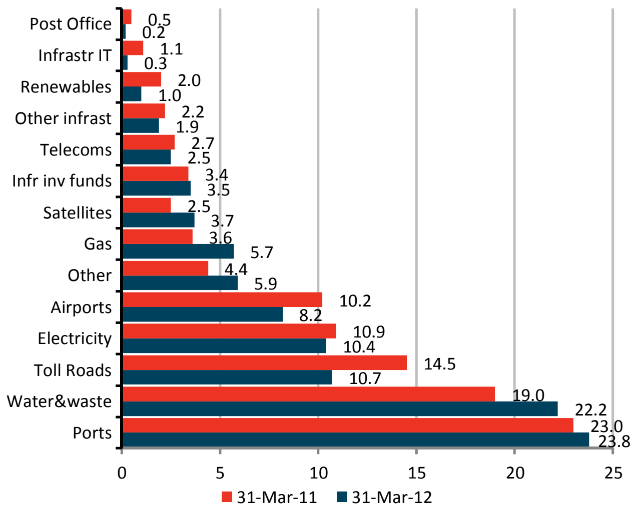
Share price performance

Over the period, the share price has decreased by 16.9%. At the period end, the shares were trading at a 26% discount to NAV (as at 30 September 2011, its latest published NAV).

Source: Utilico Emerging Markets Limited

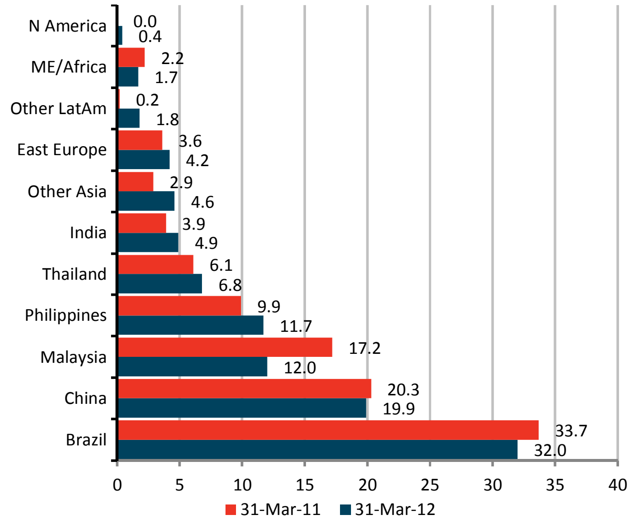
Portfolio breakdown, 31 March 2012 vs. 31 March 2011

Figure 4: Sector breakdown, %



Source: Utilico Emerging Markets Limited

Figure 5: Geographic breakdown, %



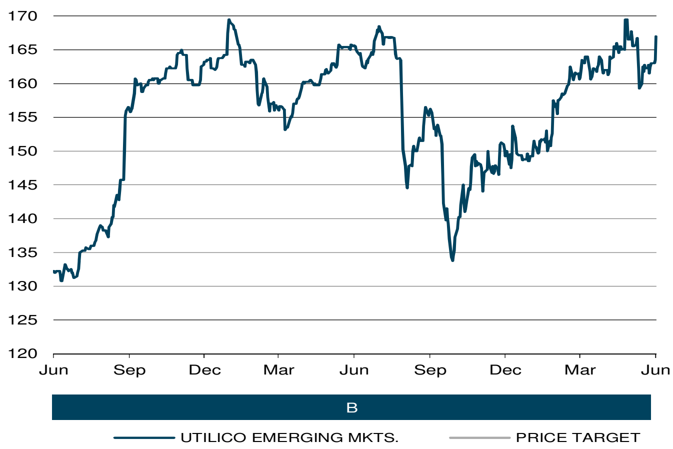
Source: Utilico Emerging Markets Limited

Risks

Some of the risks associated with this fund include:

- Region specific risk (ie, emerging markets)
- Country specific risk (relatively high allocations to certain countries)
- Sector specific risk (relatively high allocations to certain sectors)
- Stock specific risk (relatively concentrated portfolio)
- Currency risk
- Benchmark relative risk (portfolio composition markedly different from market indices)
- Limited participation in market upside (given defensive nature of portfolio companies)
- Some underlying holdings can be relatively illiquid
- The fund may hold unlisted stocks
- Use of gearing and derivatives may negatively impact performance
- Price discount to NAV widening
- The shares may be relatively illiquid

Figure 6: Share price and recommendation tracker graph (2 years)



Source: Thomson Reuters, Westhouse Securities

About Utilico Emerging Markets

Utilico Emerging Markets Limited is an exempt, closed-end investment company incorporated in Bermuda. Launched on 20 July 2005, the fund moved its listing from AIM to the Official List of the London Stock Exchange on 14 November 2011 and became a FTSE250 index constituent on 18 June 2012.

Investment policy

Investment objective

Long-term total return

The company aims to provide a long-term total return by investing predominantly in infrastructure, utilities and related sectors, mainly in emerging markets.

Investment remit

The company has a flexible investment policy and can make investments in infrastructure, utilities and related sectors, including, but not limited to, water and sewerage, waste, power generation and distribution, gas, telecommunications, ports, airports, service companies, rail, roads, post offices, stock exchanges and any business with essential services or monopolistic characteristics, and in any new utilities which may arise. It may also invest in businesses which supply services to, or otherwise support, these companies.

Geographical remit

The company focuses on the undeveloped and developing markets of Asia, Latin America, Emerging Europe, the Middle East and Africa. It also has the flexibility to invest in markets worldwide. The company will generally seek to invest in Emerging Market countries where the Directors believe that there are attributes such as political stability, economic development, confidence in the country's legal framework and a positive attitude to foreign investment.

Gearing

Bank borrowings may be used from time to time for short-term liquidity purposes and, if the Directors deem prudent, for longer-term purposes. Gearing is limited to 25% of gross assets.

The company currently has a committed senior secured multicurrency revolving facility of £50m with Scotiabank Europe plc, expiring on 23 February 2014 (2011: £25m with Bank of Scotland, which matured on 15 March 2012). At 31 March 2012 £4.4m of the facility was drawn.

Use of derivatives

The company is permitted to use derivatives (such as futures and options) for efficient portfolio management.

As at 31 March 2012, UEM had a net position of 600 S&P put options and a short position of 400 call options. The total position was valued at £12.4m at year end.

Investment strategy

Fundamental bottom-up investment process

The managers employ a fundamental bottom-up investment process. There are no specific screening criteria and companies are assessed on a case-by-case basis. Company visits are undertaken regularly. There is no style bias in terms of market cap or value/growth. What the managers are looking for in every investee company is an IRR on investment of at least 20%. In this respect, their investment style may be characterised as “relative value”: the portfolio may hold companies on low P/Es, but also on high P/Es if these are justified by commensurately high growth rates.

The portfolio is a result of the individual stock picks and is not run by reference to any market benchmark index. As a consequence, the fund can have large exposures to certain countries or sectors, and little resemblance in breakdown to any market indices.

Liquidity is not a main consideration when building the portfolio and some of the holdings can be fairly illiquid. The portfolio normally holds about 60-80 stocks, with the bulk of the assets concentrated in the top ten to twenty stocks. Turnover tends to be low.

The Investment Adviser

ICM Limited (ICM) is the company’s investment adviser. ICM is a Bermuda-incorporated company and has assets under management (AUM) of over £1.5bn. ICM is responsible for the investment portfolio in conjunction with Charles Jillings and his team.

ICM represented by Duncan Saville

Duncan Saville is a director of ICM. He is a chartered accountant with experience in corporate finance and corporate investment. His companies have invested in the utility sector for over 20 years. He was formerly a non-executive director of Utilico Investment Trust plc, The Special Utilities Investment Trust plc, East Surrey Water plc, Dee Valley Water plc, Glasgow Prestwick International Airport Limited and Wellington International Airport Ltd and is currently a non-executive director of Infratil Ltd and Vix ERG Ltd.

Charles Jillings is responsible for the day to day running of the portfolio

Charles Jillings

Charles Jillings is an employee of the company. He is responsible for the day-to-day running of the company and the investment portfolio in conjunction with ICM. Mr Jillings qualified as a chartered accountant and previously was a corporate finance director at Hill Samuel. He has been a director of several listed companies and is currently a director of UEM, Newtel Holdings Limited and East Balkan Properties plc.

Assisting Duncan Saville and Charles Jillings are a team, including:

Mark Lebbell

Mark Lebbell has been involved with Utilico since its inception and before that with The Special Utilities Investment Trust plc since 2000. He is an associate member of the Institute of Engineering and Technology.

Jonathan Chi

Jonathan Chi has been involved in the running of Utilico and UEM since December 2005 and is based in Singapore. Prior to joining the team, he was a financial accountant for a funds management company and is a Fellow of the Institute of Chartered Accountants in Australia.

Jacqueline Broers

Jacqueline Broers has been involved in the running of Utilico and UEM since September 2010. Prior to joining the investment team, she worked in the Corporate Finance team at Lehman Brothers/Nomura. She is a qualified chartered accountant.

Jonathan Groocock

Jonathan Groocock has been involved in the running of Utilico and Utilico Emerging Markets since February 2011. Prior to joining the investment team, he was an equity research analyst at Investec. He is a CFA charterholder.

The Board of Directors

All the directors are independent and all the directors are members of the Audit Committee, Management Engagement Committee and Remuneration Committee.

Alexander Zagoreos (Chairman)
Mr Zagoreos, aged 74 and appointed in June 2005, was educated at Columbia University and was awarded MBA, BA and Masters degrees in International Affairs. He is Chairman of the Company and the Company's Management Engagement Committee. He is senior advisor of Lazard Asset Management where he was formerly responsible for emerging market products and closed-end investment companies. He has over 40 years of investment experience. He is currently director of The World Trust Fund, Taiwan Opportunities Fund, Alpha Andromeda Trust and ProBank (Athens). He was formerly manager of Lazard Emerging World Investors LP, and is on the boards of a number of investment companies and charitable organisations.

Kevin O'Connor (Deputy Chairman)
Mr O'Connor, aged 71 and appointed in June 2005, was formerly the chairman of Infratil Ltd, a New Zealand-based specialist investor in international infrastructure and utility assets. He is Chairman of the Company's Remuneration Committee. Previously he had a 35-year career in investment banking and stock broking with Daysh Renouf & Co and O'Connor Grieve & Co amongst others. He was a member of the New Zealand Takeovers Panel for 15 years and is Chairman of the Nikau Foundation, a trustee of the Catholic Foundation of Wellington, as well as being involved with a number of other charitable bodies.

Garry Madeiros OBE
Mr Madeiros, aged 62 and appointed in June 2007, was formerly president and Chief Executive Officer of BELCO Holdings Ltd and Bermuda Electric Light Company Ltd. He is a director of BF&M Ltd and BF&M Life Insurance Company. He is a Chartered Accountant, Chairman of the company's Audit Committee and he has served on a number of corporate, community and government boards. He is a Justice of the Peace and a fellow of the Bermuda Institute of Chartered Accountants.

Anthony Muh
Mr Muh, aged 48 and appointed in October 2010, is an investment professional with more than 25 years' experience in the investment management industry. He is an executive director of Morrison & Co. He previously headed up the Asia Pacific operations of the UK's largest closed-end listed investment company, Alliance Trust plc. He is the Chairman and a Fellow of the Hong Kong Securities Institute and a member of the Asia Advisory Board for Euromoney Institutional Investor plc and is a member of the New Zealand Business Advisory Board to the New Zealand Chamber of Commerce in Hong Kong.

Fees and charges

Investment adviser fee: 0.5% of gross assets, payable quarterly in arrears.

Performance fee: 15% of outperformance relative to the company's benchmark, subject to a high watermark. The benchmark is the post-tax yield on the FTSE Actuaries Government Securities UK Gilt 5 to 10 Years Index, plus inflation (on an RPIX basis), plus two percentage points. The fee is payable in respect to each financial period. Half the fee is paid in cash and half in UEM ordinary shares. No performance fee was payable in the year to 31 March 2012.

Performance fee high watermark: as at 31 March 2012 this stood at 175.6p.

Total expense ratio (TER): The Board targets a TER of less than 1%. The last reported TER (for the year ended 31 March 2012) stood at 0.9%.

Dividends

Distribution policy. It is the Board's intention to try to maintain or increase the dividend. The company has the flexibility to pay dividends from capital reserves.

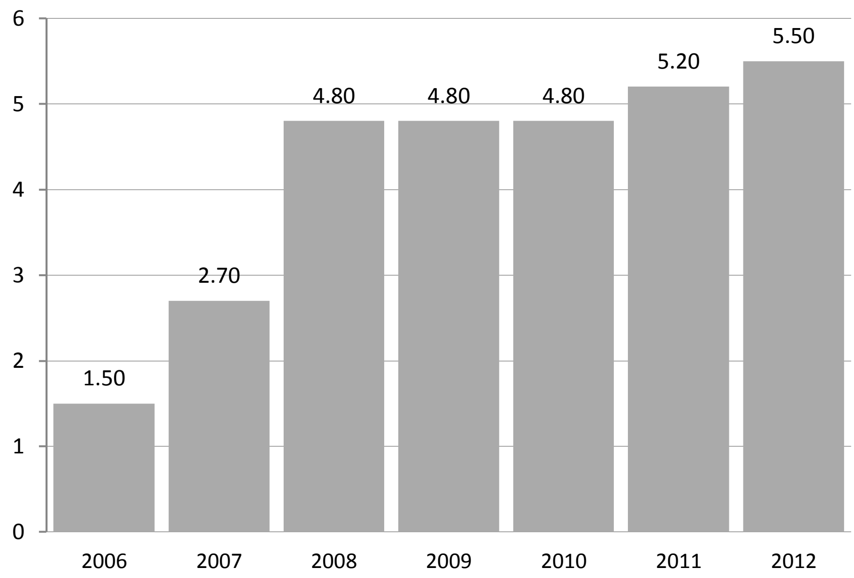
Frequency. Up to and including the financial year ending 31 March 2012, dividends have been paid semi-annually (in June and December), gross of tax. Given the increasing emphasis investors are placing on dividend income, the Board intends to commence paying dividends in the financial year ending 31 March 2013 on a quarterly basis. It is expected that the first quarterly dividend will be declared in August and paid in September 2012.

Dividend reinvestment. The company has a Dividend Reinvestment Plan which shareholders can elect to join if they wish.

2012 dividend. For the financial year ending 31 March 2012, an interim dividend of 3.75p was paid on 2 December 2011. A final dividend of 1.75p was declared and will be paid on 6 July 2012 to shareholders on the register on 22 June 2012. The dividend was partially covered by capital reserves, given that earnings per share amounted to 4.12p per share.

Dividend history

Figure 7: UEM dividend per share, from July 2006 (p)



Source: Utilico Emerging Markets Limited.

Discount management

The Board can, at its discretion, operate a tender facility for up to 12.5% of the ordinary shares in issue

Tender facility. The Board can, at its discretion, operate a tender facility for up to 12.5% of the ordinary shares in issue, on a financial-year basis. The tender price would normally be set at a 5% discount to the relevant NAV. The tender facility is not expected to be made available in circumstances where the annual compound growth rate of the company's gross assets exceeds 10%, or where the company's performance exceeds the benchmark index by 15% or more in the relevant period.

Buy-backs. The company can also buy back shares in the market every financial year, up to 14.99% of the issued capital. In the year to 31 March 2012, the company bought back 3.1m ordinary shares at an average price of 160p.

Company life

The company has an indefinite life; however, a continuation resolution will be proposed at the annual general meeting to be held in 2016.

Important dates

Financial year end: 31 March.

Final results released: June

Half year results released: November

Next company AGM: 18 September 2012

Approximate dividend xd dates: August, December, February, May

Approximate dividend pay dates: September, January, March, June

Next dividend and xd date: 1.75p (final), 19 June 2012

Next dividend and payment date: 1.75p (final), 6 July 2012

Continuation vote: September 2016

Explanation of recommendations

Westhouse Securities Limited uses a three-tier system for its investment funds recommendations. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the research report contains more complete information concerning the analyst's views, investors should carefully read the entire research report and not infer its contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock or investment fund should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Investment funds ratings are explained as follows:

BUY: Total returns expected to be in excess of those from the fund's benchmark

HOLD: Total returns expected to be in line with those from the fund's benchmark

SELL: Total returns expected to be lower than those from the fund's benchmark

Total return is defined as the movement in the share price over the medium- to long-term, and includes any dividends paid.

Distribution of Westhouse Securities Limited's investment funds recommendations:

Westhouse Securities Limited must disclose in each research report the percentage of all investment funds rated by the member to which the member would assign a "BUY", "HOLD" or "SELL" rating, and also the proportion of relevant investments in each category issued by the issuers to which the firm supplied investment banking services during the previous twelve months. The said ratings are updated on a quarterly basis. This recommendation system differs from the recommendation system used on non-Investment Fund research.

Investment Funds recommendation breakdown: 31 March 2012

	BUY	HOLD	SELL
Overall Investment Funds coverage	100.0%	0.0%	0.0%
Funds to which Westhouse has supplied investment banking services	100.0%	0.0%	0.0%

Source: Westhouse

Westhouse has provided investment banking services to this company within the last 12 months.

Westhouse acts as a market maker or liquidity provider for this company

The company has seen this research but no material changes have been made as a result.

Analysts' remuneration is based on a number of factors, including the overall results of Westhouse Securities Limited, to which a contribution is made by investment banking activities. Analysts' remuneration is not based on expressing a specific view or recommendation on an issuer, security or industry.

This research is classified as being a "marketing communication" as defined by the FSA's Handbook. This is principally because analysts at Westhouse Securities are involved in investment banking activities and pitches for new business and consequently this research has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Therefore, the research is not subject to any prohibition on dealing ahead of the dissemination of investment research. Nevertheless, the Firm's Conflict of Interest Management Policy prohibits dealing ahead of research, except in the normal course of market making and to satisfy unsolicited client orders. Please refer to www.westhousesecurities.com for a summary of our conflict of interest management policy in relation to research. This includes organisational controls (departmental structure, a Chinese wall between corporate finance and other departments, etc), procedures on the supervision and remuneration of analysts, a prohibition on analysts receiving inducements for favourable research, editorial controls and review procedures over research recommendations and a prohibition on analysts undertaking personal account dealings in companies covered by them.

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