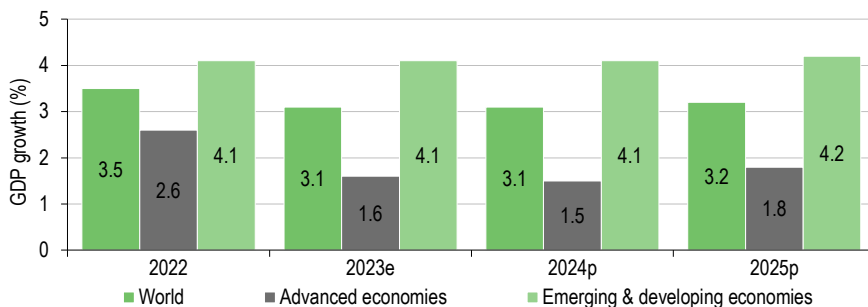


# UIL

## Long-term focus, avoiding short-term noise

UIL Limited (UIL) is managed by Charles Jillings and his highly experienced team at value-based specialist investor ICM. It is a unique portfolio of undervalued assets, which is illustrated by the fund's differentiated exposures. In terms of geography, the largest weightings are Australia (c 42%) and the UK (c 21%), while the largest sector allocations are financial services (c 51%) and technology (c 21%). The majority of the portfolio, around 75%, is held in platforms (collective investment companies), with the balance in direct investments. UIL's dividends have remained steady for the last three financial years and the board anticipates that the annual distribution will at least be maintained, using revenue reserves when required. The company offers a very attractive above-market 7.1% dividend yield.

### Emerging and developing economies offer higher growth prospects than developed regions



Source: International Monetary Fund World Economic Outlook January 2024, Edison Investment Research. Note: e is estimated, p is projected.

## Why consider UIL?

Stocks are selected on a bottom-up basis following thorough fundamental research taking into account Jillings' three medium-term views: the world's financial markets are over indebted; technological change offers strong investment upside; and emerging markets offer better GDP growth opportunities than developed markets, which is illustrated in the chart above. The manager focuses on long-term value creation, looking through short-term stock price volatility.

Despite a choppy market environment, Jillings has remained focused on reducing UIL's leverage, which is a mixture of zero dividend preference shares (ZDPs) and bank debt. The company's remaining loan with Bank of Nova Scotia will be repaid on 19 March 2024, and one of UIL's three tranches of ZDPs will be redeemed at the end of October 2024. Despite investment company discounts being wider than average in an uncertain macroeconomic environment, UIL's board is hopeful that lower leverage could contribute to the company being afforded a higher valuation.

It is also important to note that an investor in UIL effectively receives a 'double discount'; for example, at end-January 2024, Zeta Resources (14.7% of the fund), was trading at a 16.7% discount to net tangible assets, and [Utilico Emerging Markets Trust](#) (10.6%) was trading at a 14.5% discount to NAV.

### Investment companies Global value

4 March 2024

**Price** 112.0p  
**Market cap** £94m  
**Total assets** £269m

NAV\* 187.9p  
Discount to NAV 40.4%

\*Including income. At 29 February 2024.

Yield 7.1%

Ordinary shares in issue 83.8m

Code/ISIN UTL/BMG917071026

Primary exchange LSE

AIC sector Flexible Investment

Financial year end 30 June

52-week high/low 147.0p 112.0p

NAV\* high/low 231.1p 177.3p

\*Including income

Net gearing\* 70.7%

\*Including zero dividend preference (ZDP) shares.  
At 31 January 2024.

### Fund objective

UIL's objective is to maximise shareholder returns by identifying and investing in investments worldwide where the estimated underlying value is not fully recognised. The company's investment performance is benchmarked against the broad UK equity market. UIL is a member of the AIC flexible investment sector.

### Bull points

- High-conviction, diversified portfolio of undervalued assets.
- Regular quarterly dividend payments and an attractive yield.
- Scope for a higher valuation given large discount to NAV.

### Bear points

- Levered strategy means losses are amplified in a falling market.
- Modest 20% free float – the majority of UIL's shares are closely held.
- Relatively high concentration risk as the largest holding is c 22% of the fund on a look-through basis.

### Analyst

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## UIL: A unique portfolio of attractively valued assets

UIL offers investors exposure to a unique and diversified portfolio of assets that the manager considers are undervalued. Since launch, UIL's NAV has compounded at an annual rate of 7.8%.

### FY24 interim results

UIL recently released its H124 results (ending 31 December 2023). Its NAV and share price total returns of +4.2% and -9.5%, respectively, compared with the UK market's +5.1% total return. The period was characterised by an uncertain macroeconomic backdrop and UIL was divesting assets during weak markets to reduce debt. Its commitment to Bank of Nova Scotia was reduced from £37.5m to £15.0m and will be fully repaid by the end of March 2024. During H124, UIL's total leverage (bank debt plus ZDPs) declined from 83.5% to 71.3%. Average funding costs were unchanged from FY23 at 5.7%.

H124 revenues declined by 72.9% year-on-year to £2.3m as there was no distribution from UIL's largest holding, Somers, and some dividend paying assets were sold. Increased financing costs (+36.4% year-on-year to £1.5m) contributed to a higher ongoing charges ratio of 3.0% versus 2.8% in FY23. Readers should be reminded that UIL's ongoing charges appear high compared with other investment companies as the expense calculation is based on a percentage of average net assets (after the deduction of the ZDPs).

UIL declared an unchanged quarterly dividend of 2.0p per share but payment will be delayed from March 2024 to June 2024 due to the focus on debt reduction.

### Board changes

Chairman Peter Burrows will retire on 31 March 2024. He will be replaced by Stuart Bridges, who currently chairs UIL's audit & risk committee.

The company has also appointed a new director, Peter Durhager, who will join the board on 31 March 2024. He is currently chairman of UIL's platform investment Somers but will retire following Somers' AGM on 12 March 2024. Durhager has more than 25 years of experience in the financial, telecommunications and energy sectors. He is currently an executive director of the Allan & Gill Gray Foundation and a non-executive director of Harrington Re.

### Current portfolio positioning

At end-January 2024, UIL's top 10 holdings made up 95.5% of the fund, which was a higher concentration compared with 90.6% a year earlier; seven positions were common to both periods.

Exhibit 1: Top 10 holdings (at 31 January 2024)				
Company	Country*	Sector	Portfolio weight %	
			31 Jan 2024	31 Jan 2023**
Somers	Bermuda	Financial services investment holding co	43.2	38.4
Zeta Resources	Australia	Resources investment company	14.7	14.9
Utilico Emerging Markets Trust	UK	Emerging markets investment trust	10.6	11.9
Resimac Group	Australia	Financial services	7.5	7.3
Allectus Capital	Bermuda	Fintech investment company	5.9	6.4
Allectus Quantum Holdings	UK	Investment holding company	5.0	N/A
The Market	Australia	Financial services	3.1	3.3
West Hamilton Holdings	Bermuda	Property	2.3	4.1
Arria NLG	UK	Technology	1.8	N/A
Carebook Technologies	Canada	Technology	1.4	N/A
<b>Top 10 (% of portfolio)</b>			<b>95.5</b>	<b>90.6</b>

Source: UIL, Edison Investment Research. Note: \*Country of listing or domicile. \*\*N/A where not in end-January 2023 top 10.

UIL's portfolio is not as concentrated as Exhibit 1 suggests as four of the top 10 holdings (Somers, Zeta Resources, Utilico Emerging Markets Trust and Allectus Capital) are platforms with portfolios of underlying investments; we provide more information below in Exhibit 2. On a look-through basis, at the end of January 2024, UIL's top 10 positions made up 67.2% of the fund, with the top 20 at 78.7% and the top 50 at 89.9%. The three largest holdings were Resimac (21.5%, held by UIL and Somers), Waverton Investment Management (15.0%, Somers) and Koumbia Bauxite Investments (8.3%, Zeta Resources).

The total number of positions including the platforms is around 30 and c 16% of the fund is held in unlisted investments (excluding loans to listed companies and listed companies classed as level 3 investments, which are valued using inputs that are not based on observable market data).

On 12 February 2024, Allectus Quantum Holdings' investment in Diraq received U\$15m from a Series A-2 funding. This was led by Paris-based Quantonation, which is the world's first venture capital fund dedicated to quantum technologies. The additional capital will be used to advance Diraq's research and development programme to realise its full economic and commercial potential of quantum computing. This brings Diraq's total funding to \$120m, which includes research funding from the Australian and US governments.

#### Exhibit 2: UIL's four platform holdings

Platform		Country*	(%)
<b>Somers</b>	<b>Top five holdings at 31 December 2023</b>		
Waverton Investment Management Group	A specialist investment manager focusing on discretionary portfolio management for private clients, charities and institutions plus a suite of in-house managed investment funds.	UK	42.9
Resimac	A leading residential mortgage lender and multichannel distribution business specialising in prime and specialist mortgage lending.	Australia	32.8
ICM Mobility Group	An unlisted company focusing on the mobility sector, covering private and public transport.	UK	9.5
AK Jensen Group	A global brokerage business, providing hedge fund services to traditional hedge funds and digital asset funds.	Bermuda	3.6
Thorn Group	An asset finance business that is in the process of winding down.	Australia	3.2
			<b>92.0</b>
<b>Zeta Resources</b>	<b>Top five holdings at 31 January 2024</b>		
Koumbia Bauxite Investments	An unlisted company with the right to a future revenue stream from Alliance Mining Commodities, operators of the Koumbia bauxite project in Guinea, West Africa.	Bermuda	47.3
Horizon Gold	A listed junior gold explorer with gold resources and a zinc-copper-silver discovery in Western Australia.	Australia	17.7
Alliance Nickel	A junior nickel and gold explorer with substantial nickel resources in Western Australia.	Australia	5.2
Kumarina Resources	An unlisted mining company with a gold-copper project in Western Australia.	Australia	4.0
Margosa Graphite	An unlisted graphite explorer focused on high-grade vein graphite in Sri Lanka.	Sri Lanka	3.4
			<b>77.6</b>
<b>Utilico Emerging Markets</b>	<b>Top five holdings at 31 January 2024</b>		
International Container Terminal Services	A global port management company that acquires, develops, manages and operates small to medium-sized container terminals worldwide with a focus on origin and destination ports.	The Philippines	4.5
Alupar Investimento	A holding company for energy assets focused on the electricity transmission and generation sectors in Brazil, Peru and Colombia. It has concession rights to 30 transmission assets totalling 7,929km of electricity lines in Brazil, of which 6,120km are operational.	Brazil	4.3
Petalite	An unlisted electric vehicle charging infrastructure company that has dedicated the last seven years to research and development for charging technology, with four years dedicated purely to electric vehicle charging technology. Since late 2020, Petalite has grown in strength, employing an elite team of engineers and business development specialists to reach commercialisation.	UK	3.9
Orizon Valorização de Resíduos	Operates as a waste treatment and recovery company, offering waste management and processing solutions, ranging from recycling to biogas and electric power generation.	Brazil	3.4
Power Grid Corporation of India	A state-owned company engaged mainly in power transmission. The company transmits about 50% of the total power generated in India on its network.	India	3.3
			<b>19.4</b>
<b>Allectus Capital</b>	Invests in early- and growth-stage companies developing disruptive technologies. Its important verticals comprise fintech, AI, digital health and deep technology.		

Source: UIL, Edison Investment Research. Note: \*Country of listing or domicile.

On 29 February 2024, Waverton Investment Management (Somers' largest holding) announced a merger with London & Capital Group. Waverton has more than £10bn in assets under management and, subject to regulatory approval, the deal is expected to complete in mid-2024. The transaction will result in Somers receiving two-thirds of its consideration in cash on completion together with a

significant shareholding in the combined new business. As the transaction price is a small premium to Somers' current carrying value of Waverton, there should not be a material impact on UIL's NAV.

During H124, UIL sold its direct holding in Littlepay Mobility to Somers. Its place in UIL's top 10 positions has been filled by Carebook Technologies, a leading Canadian provider of innovative digital health services, which is listed on the TSX Venture Exchange. The company provides employee health and wellness solutions to employers globally as well as pharmacy management services to pharmacies. Carebook made significant financial progress in 2023 helped by a meaningful contract increase with a large European client.

UIL's look-through geographic exposures are shown in Exhibit 3. Over the 12 months to the end of January 2024, the main changes are a higher UK weighting (+5.7pp) and a lower allocation to the US (-3.5pp). The country breakdown illustrates UIL's unconventional makeup with more than 40% of its portfolio in Australia and a very modest US weighting (this country makes up around 70% of global indices).

<b>Exhibit 3: Portfolio geographic exposure on a look-through basis (% unless stated)</b>			
	Portfolio end-January 2024	Portfolio end-January 2023	Change (pp)
Australia	41.8	42.3	(0.5)
UK	20.8	15.1	5.7
Middle East/Africa	9.0	6.6	2.4
Bermuda	7.9	8.0	(0.1)
Asia	6.7	7.3	(0.6)
Europe (ex-UK)	5.6	6.1	(0.5)
Latin America	3.8	3.6	0.2
Canada	2.0	4.9	(2.9)
US	1.7	5.2	(3.5)
New Zealand	0.7	0.9	(0.2)
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

Source: UIL, Edison Investment Research

Exhibit 4 shows UIL's look-through sector breakdown, which again is very different from mainstream indices. The main changes in the 12 months to the end of January 2024 are a higher weighting in financial services (+4.4pp), which is the company's largest exposure by a wide margin, and a lower allocation to resources (-3.3pp), which may reflect weakness in commodity prices rather than active repositioning.

<b>Exhibit 4: Portfolio sector exposure on a look-through basis (% unless stated)</b>			
	Portfolio end-January 2024	Portfolio end-January 2023	Change (pp)
Financial services	51.3	46.9	4.4
Technology	20.6	19.3	1.3
Resources	10.8	14.1	(3.3)
Gold mining	3.9	3.5	0.4
Ports	2.4	2.5	(0.1)
Electricity	2.3	2.2	0.1
Renewables	1.3	1.4	(0.1)
Water	1.1	0.8	0.3
Oil & gas	0.8	1.0	(0.2)
Telecommunications	0.6	1.1	(0.5)
Airports	0.5	0.8	(0.3)
Infrastructure investments	0.5	0.5	0.0
Other	3.9	5.9	(2.0)
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

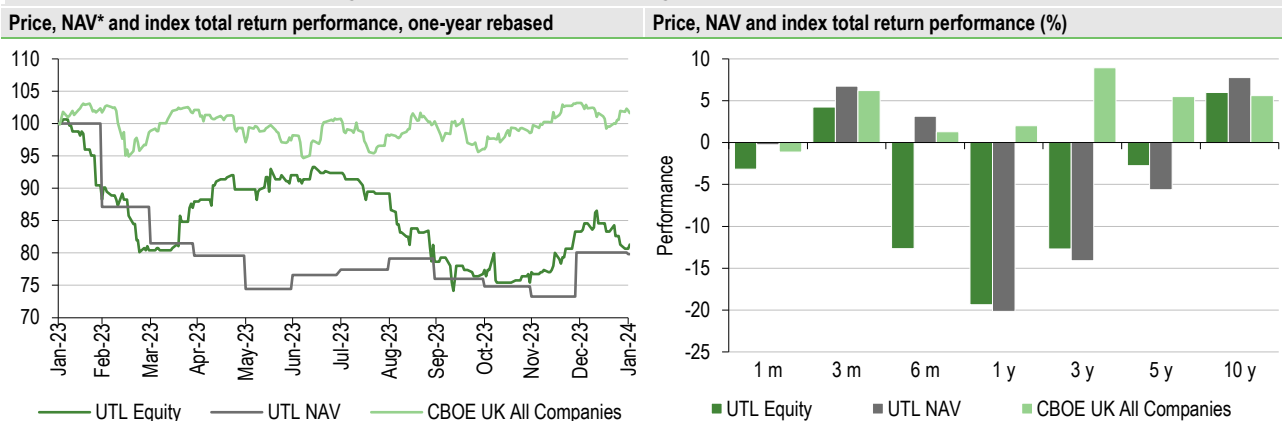
Source: UIL, Edison Investment Research

## Performance: Sticking to the long-term strategy

As noted in the FY24 interim results section above, in H124, UIL's NAV total return of +4.2% was considerably higher than its share price total return of -9.5%, which led to the discount widening over the period. Jillings provides information about the performance of the company's top 10 holdings.

- Somers (valuation +15.5%) – the uplift was primarily due to Resimac, which is also UIL’s fourth largest holding, as its share price proved resilient despite a tough operating environment. Waverton is Somers’ largest position and has delivered strong revenue and growth in assets under management regardless of the uncertain macroeconomic environment.
- Zeta Resources (share price -9.8%) – nickel price weakness led to the voluntary administration of Panoramic Resources, which was one of the company’s largest assets. Zeta sold its position in Hudbay Minerals in a rising market and used the proceeds to repurchase its shares; UIL reduced its holding by selling into the buyback.
- Utilico Emerging Markets Trust (share price +2.7%) – the trust has continued to outperform its benchmark, with investee companies generally posting robust results in volatile market conditions.
- Resimac (share price +18.2%) – the company’s competitive environment has stabilised, while the potential for peak interest rates is driving home loan applications.
- Allectus Capital (valuation -9.5%) – its lower valuation was in line with those seen in the broader technology sector due to funding pressures and economic uncertainty.
- Allectus Quantum Holdings (valuation unchanged) – the company is continuing to make progress with its sole investment in Diraq, which is a next-generation quantum computing company.
- The Market (share price -20.7%) – investors have been waiting to gauge the company’s progress as it rolls out new products and discontinues underperforming businesses.
- West Hamilton Holdings (valuation +2.5%) – the company sold two of its three major assets in Bermuda and returned cash to shareholders.
- Arria NLG (valuation -20.2%) – revenues are growing but the company remains loss-making.
- Carebook Technologies (share price +7.1%) – the company posted its first quarter of positive EBITDA.

**Exhibit 5: Investment company performance to 31 January 2024**



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. \*Monthly NAVs.

**Exhibit 6: Share price and NAV total return performance, relative to indices (%)**

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to CBOE UK All Companies	(2.1)	(1.9)	(13.8)	(20.9)	(48.6)	(33.4)	3.7
NAV relative to CBOE UK All Companies	0.9	0.5	1.8	(21.7)	(51.0)	(42.6)	22.6
Price relative to MSCI AC World	(3.8)	(5.1)	(17.1)	(27.6)	(49.1)	(49.4)	(41.4)
NAV relative to MSCI AC World	(1.0)	(2.8)	(2.1)	(28.3)	(51.5)	(56.4)	(30.7)
Price relative to MSCI Emerging Markets	1.4	2.2	(8.2)	(14.4)	(23.0)	(21.4)	0.7
NAV relative to MSCI Emerging Markets	4.5	4.6	8.5	(15.2)	(26.6)	(32.3)	19.0

Source: Refinitiv, Edison Investment Research. Note: Data to end-January 2024. Geometric calculation.

**Exhibit 7: Five-year discrete performance data**

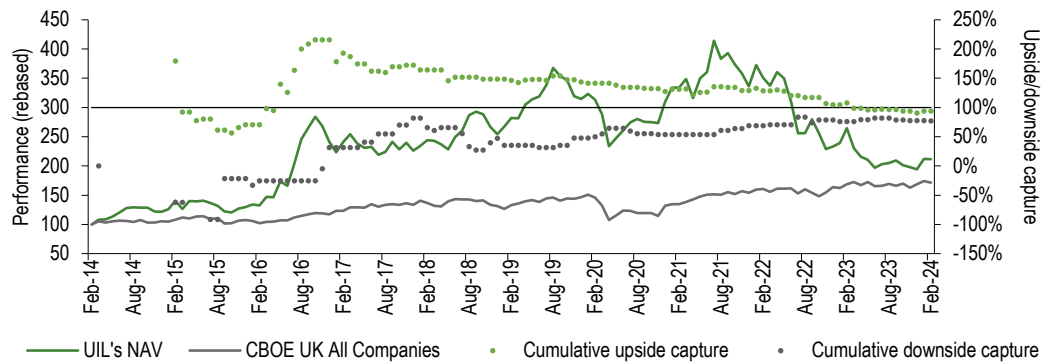
12 months ending	Share price (%)	NAV (%)	CBOE UK All Companies (%)	MSCI AC World (%)	MSCI Emerging Markets (%)
31/01/20	39.8	11.0	10.5	16.4	4.0
31/01/21	(6.5)	6.5	(8.6)	12.9	23.2
31/01/22	22.2	5.1	19.3	16.4	(4.8)
31/01/23	(32.5)	(24.5)	6.3	0.8	(3.8)
31/01/24	(19.3)	(20.2)	2.0	11.4	(5.8)

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

### UIL's upside/downside analysis

While an imperfect comparator, UIL's performance is measured versus the UK market to provide some perspective. In Exhibit 8 we illustrate the company's upside/downside capture rate versus the CBOE UK All Companies Index over the last decade. The upside capture is 94% and the downside capture is 77%. This suggests that the fund largely keeps up with the UK market when share prices are rising but is more defensive when share prices fall. If UIL is compared with the world market using the MSCI AC World Index, its upside capture is very similar at 96%. However, its much larger 125% downside capture suggests that UIL will underperform during periods of global share price weakness. While this data is interesting, of more importance is Jillings' and his team's approach of avoiding short-term market noise and investing in assets with the potential to generate significant long-term shareholder value.

**Exhibit 8: UIL's upside/downside capture**



Source: Refinitiv, Edison Investment Research. Note: Cumulative upside/downside capture calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the exhibit due to the limited number of observations to calculate the cumulative upside/downside capture ratios.

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