Utilico Emerging Markets Trust

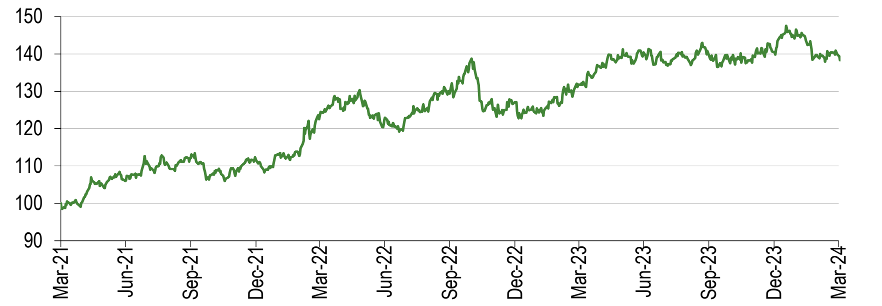
Quality of UEM's assets is underappreciated

Investment trusts
EM infrastructure and utilities

10 April 2024

Utilico Emerging Markets Trust's (UEM's) manager Charles Jillings, at specialist investor ICM, is very excited about the prospects for the trust's investee companies. He believes that investors underappreciate the quality of these businesses and the teams that manage them. Jillings travels extensively, along with deputy portfolio managers Jacqueline Broers and Jonathan Groocock, meeting with current portfolio and other firms and relevant organisations in emerging markets. They report first hand that companies in the fund are performing very well, with robust top-line growth and cost reductions leading to higher margins. Because of the nature of UEM's holdings in infrastructure and utility assets, the fund has a consistently low beta. Successful stock selection has led to the trust's NAV outperformance versus the MSCI Emerging Markets Index over the last one, three, five and 10 years – most notably over the last three years. Since inception in 2005, UEM's NAV total return compounded at 9.5% per year.

Significant NAV outperformance vs the MSCI EM Index over the last 3 years



Source: LSEG, Edison Investment Research

Why consider UEM?

What may not be fully recognised by global investors, who tend to gravitate towards the dominant US market, is that emerging markets have above-average growth prospects – by 2050, total GDP in emerging markets is widely forecast to exceed that in developed markets. Emerging markets also look very attractively valued in both absolute and relative terms.

To deliver on UEM's total return objective, Jillings and his team are focusing on the growth potential from four infrastructure (infra) megatrends: energy transition, digital infra, global trade and social infra. They seek undervalued real assets with robust growth profiles, strong cash flow generation and attractive dividend yields. Employing a long-term perspective allows the team to avoid short-term stock market 'noise' and concentrate on what is really happening in emerging market economies.

Jillings believes that the trust's portfolio is undervalued given that investee companies are generating sector-leading performances. More than 80% of investee companies pay a dividend. In an environment of wider-than-average industry discounts, now could be a good time to consider a high-quality, asset-backed portfolio with an attractive 3.8% covered yield.

NOT INTENDED FOR PERSONS IN THE EEA

Price		**224.0p**
Market cap		**£427m**
Total assets		**£521m**
NAV*		276.5p
Discount to NAV		19.0%
*Including income. At 8 April 2024.		
Yield		3.8%
Ordinary shares in issue		190.7m
Code/ISIN		UEM/GB00BD45S967
Primary exchange		LSE
AIC sector		Global Emerging Markets
Financial year end		31 March
52-week high/low	233.0p	205.0p
NAV* high/low	276.5p	249.1p
*Including income		
Net cash (at 31 March 2024)		1.1%

Fund objective

Utilico Emerging Markets Trust's investment objective is to provide long-term total returns by investing predominantly in infrastructure, utility and related equities, mainly in emerging markets.

Bull points

- Specialist fund investing in high-quality emerging market companies.
- Progressive dividend policy and attractive yield.
- Higher economic growth and lower valuations in emerging versus developed markets.

Bear points

- Discount is persistently wider than board's desired level of 10%.
- The MSCI Emerging Markets Infrastructure and Utility indices have underperformed the MSCI Emerging Markets Index over the long term.
- Emerging market indices can be more volatile than those in developed markets.

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Utilico Emerging Markets Trust is a research client of Edison Investment Research Limited

UEM: A unique exposure to emerging markets

The trust offers a unique exposure to emerging market infrastructure and utility assets. Around 95% of the fund is invested in listed companies, with an even higher percentage in operational assets. Jillings and his team form close relationships with investee firms to fully understand their business models and the regulatory environments in which they operate, in order to mitigate risk. Also, the strategy of investing in long-term, generally regulated assets, provides the team with confidence in the outcomes for portfolio companies, which often operate in monopolistic businesses with high barriers to entry. Many investee businesses are growing their top lines via both higher volumes and firmer pricing, often with inflation-adjusted contracts, which helps navigate rising cost pressures, and generates rising cash flows.

The four megatrends driving emerging market growth

- **Energy transition** (31.8% of the portfolio at end March 2024): growth drivers include decarbonisation of the energy matrix, geopolitical concerns increasing the focus on energy security, major investment in wind and solar assets leading to high demand for transmission and battery storage infrastructure, and the replacement of dirty coal- and oil-fired assets with cleaner gas-fired facilities. Strong management teams have a track record of delivering projects ahead of schedule and with market-leading internal rates of return.
- **Social infra** (24.9%): rapidly rising urban populations and growth of the middle classes are leading to high demand for better-quality services and infrastructure. In Brazil for example, increased legislation has been introduced regarding waste treatment.
- **Digital infra** (21.8%): emerging markets are behind advanced economies in terms of digital penetration but growth within emerging markets is very strong, which Jillings believes will continue for at least the next decade. Location is very important for data centres to ensure low latency and high connectivity.
- **Global trade** (21.5%): while global growth has slowed, emerging markets' share of world trade is rising. There has been a shift in trade relationships, including friction between the US and China and manufacturers are adopting a China Plus One model. For example, Apple is investing in facilities in Vietnam, while Tesla in building capacity in Mexico. Following COVID-led supply disruptions, companies are looking for shorter supply chains, hence the rise in nearshoring.

The macroeconomic environment

Jillings says that financial markets are waiting for the US Federal Reserve to lower interest rates, while central banks in emerging markets are starting, or continuing, to reduce rates. Developed market central banks are hesitant to cut interest rates ahead of the Federal Reserve, or to cut too quickly, because it will put pressure on their currencies and increase inflation risks. The manager reports that emerging market inflation has come down materially, so real interest rates are as high as they have been for some time. Hence, he believes that if interest rates come down, there will be real benefits for corporates, in terms of lower interest costs, and for stock markets as investor focus shifts from fixed-income assets to equities.

Elections are a big feature of 2024, with potentially more than 50% of the global population going to the polls this year. Jillings comments that he does not anticipate much political upheaval in emerging markets and, importantly, he expects the Indian prime minister to be re-elected. The manager says that in developed markets, all eyes will be on the US presidential election. He believes that if Donald Trump is successful, he is likely to impose higher tariffs, thereby providing headwinds to global trade, and whoever is elected, friction between the US and China will continue.

Observations from recent travels

As part of UEM's investment approach, Jillings and his team frequently travel overseas visiting investee companies, non-portfolio companies, regulators, government representatives and other relevant organisations. This gives the team an in-depth, holistic view of each country's politics, economies, and regulatory environments, as well as detailed company-specific knowledge. A recent visit to Latin America reinforced the manager's bullish view about the prospects for UEM's portfolio companies.

Mexico has benefited from significant investment and is a major beneficiary of nearshoring; the manager considers that the country's position will be further strengthened by increased US-China tensions. Also, Trump was responsible for the last NAFTA agreement and rebranded it as USMCA, so if he becomes president, he is unlikely to tear it up, which should be supportive for the Mexican economy. Jillings says that many businesses feeding into the US supply chain are locating in Mexico, not solely to mitigate supply chain and geopolitical risks, but also to take advantage of the country's substantial (60 million people) and relatively lower-cost labour force. Mexico is experiencing several positive trends, notably its demographic dividend and an increase in the number of formal workers compared to lower-paid informal employees. With a population of over 128 million, Mexico's demographic dividend is an important driver for a decade-long period of growth and investment; the country's adult population is expected to represent 72% of the total population by 2040, up from 58% in 2020. In the last six years, under President Andrés Manuel López Obrador, the Mexican minimum wage almost tripled in nominal terms, but off a very low base that required normalisation. A larger workforce and higher wages have led to increased disposable income and broader access to the Mexican banking system. This has driven demand for consumer credit, thereby stimulating the domestic economy, improving tax collection and boosting savings. The recent pension reform and the trend towards employment formalisation are expected to generate increased demand for Mexican equities, with assets managed by local pension funds expected to triple over the next decade. Understandably, UEM's manager is excited about the country's prospects.

Jillings is also very positive on the outlook for Brazil, where infrastructure and utilities corporates are continuing to perform well. The country is a leader in green energy, with more than 90% of its electricity production coming from renewable sources. Significant investments in solar and wind generation created sizeable and attractive opportunities in the energy transmission segment. The manager is confident about Brazil's competitive advantage in the commodities segment and its position as a leading global exporter. Major production growth, especially in soft commodities and oil, continues to drive robust and resilient demand for transportation infrastructure investments. This positive trend contributed to Brazil's $99bn all-time high trade surplus in 2023. The country is known for its importance in soft commodities, such as soybeans, where it has a 50% global export market share, but Brazil is also seeing a structural change in its oil production, which has increased by over 50% in the last 10 years. This ranks the country as the eighth largest global oil producer, potentially climbing to fifth by 2030. On the domestic front, Brazil's population of over 214 million provides a large market for goods and services. The country's central bank initiatives, including the instant payment solution (PIX), which is used by more than 70 million people despite being implemented less than three years ago, are increasingly facilitating access to financial services for a broader segment of the population. In recent years there has been a series of reforms in Brazil focused on improving its GDP growth potential, including pension and labour reforms, a privatisation programme and reduced levels of bureaucracy. These reforms are yielding positive results, as local GDP growth has consistently exceeded expectations over the last three years.

Portfolio breakdown

UEM's geographic and sector weightings are a result of bottom-up stock selection and, while the trust's performance is measured against the MSCI Emerging Markets Index, the manager and his team are benchmark agnostic. At the end of March 2024, the index's largest geographic weights were China (c 25% versus c 11% at UEM) and India (c 18% versus c 8%); Brazil was c 5% but makes up more than a quarter of the trust's portfolio. The index's second-largest sector was financials at c 22%, but UEM has a zero weighting to these businesses.

In the 12 months to 31 March 2024, the largest changes in UEM's geographic exposure were a higher allocation to Brazil (+4.9pp) and a lower weighting in China including Hong Kong (-4.8pp). In terms of sectors, there was a higher weighting in ports & logistics (+3.0pp), while the percentage of the fund invested in renewables declined by 3.3pp.

Jillings highlights the trust's large Brazilian exposure, which has historically been in a range of 8% to 30% of the portfolio. He says the team understands the country well, highlighting for example that there is a significant amount of oil coming online from offshore pre-salt projects. Brazil's oil production increasingly exceeds domestic demand, so exports should underpin the country's currency and its wider economy. The manager also notes that Brazil has undertaken heavy investment in logistics and supply chains, which should place the country in a favourable position as its economy evolves; portfolio company beneficiaries include Santos Brasil Participações (ports) and Rumo (railroads).

Discussing the reduction in UEM's Chinese exposure, Jillings says it is a result of both a weak market and his lower level of conviction in the country's prospects. The manager suggests that while the Chinese government can undertake measures to boost the economy, he has been surprised that there has not been more central government intervention to support the significant weakness in the domestic property market. There were also proceeds received from the sale of some of UEM's Chinese assets such as an unlisted onshore renewables fund and a listed data centre operator that was taken private.

Exhibit 1: Portfolio geographic and industry exposure (% unless stated)

Geography	Portfolio end March 2024	Portfolio end March 2023	Change (pp)		Industry	Portfolio end March 2024	Portfolio end March 2023	Change (pp)
Brazil	25.8	20.9	4.9		Ports & logistics	20.0	17.0	3.0
Other Europe	13.9	14.7	(0.8)		Electricity	19.8	17.4	2.4
China incl. Hong Kong	11.0	15.8	(4.8)		Data serv & digital infra	11.7	13.1	(1.4)
Other Latin America	10.6	11.3	(0.7)		Water & waste	9.5	6.6	2.9
Vietnam	9.3	7.0	2.3		Renewables	9.4	12.7	(3.3)
India	7.7	10.7	(3.0)		Airports	6.2	7.4	(1.2)
The Philippines	6.8	4.9	1.9		Telecoms	5.1	6.7	(1.6)
Other Asia	6.1	4.8	1.3		Road & rail	4.9	3.4	1.5
Middle East/Africa	6.0	9.9	(3.9)		Gas	4.8	7.5	(2.7)
UK	2.8	N/S	N/A		Other	8.6	8.2	0.4
	100.0	**100.0**				**100.0**	**100.0**	

Source: UEM, Edison Investment Research. Note: N/S is not stated separately.

UEM's top 10 holdings

The trust is a diverse fund with the largest position size around 5%; there is ongoing competition for capital within the portfolio. At the end of March 2024, UEM's top 10 positions made up 35.6% of the portfolio, which was a higher concentration versus 32.6% a year earlier. All four of the growth megatrends are represented in the trust's largest holdings.

Exhibit 2: Top 10 holdings (at 31 March 2024)

Company	Country	Sector	Mega trend	Portfolio weight %	
				31 March 2024	31 March 2023
International Container Terminal Services	Philippines	Ports operator & shipping services	Global trade	4.9	4.9
Alupar Investimento	Brazil	Electricity generation & transmission	Energy transition	4.7	3.8
Santos Brasil Participações	Brazil	Port operator	Global trade	4.0	1.8
FPT Corporation	Vietnam	Data services	Digital infra	4.0	2.4
Orizon Valorização de Resíduos	Brazil	Waste treatment	Social infra	3.9	3.4
InPost	Poland	Logistics operator	Digital infra	3.0	1.7
Eletrobras	Brazil	Electricity generation & transmission	Energy transition	2.9	1.8
Korean Internet Neutral Exchange (KINX)	South Korea	Internet exchange	Digital infra	2.8	1.9
India Grid Trust	India	Electricity transmission	Energy transition	2.8	2.8
VinaCapital Vietnam Opportunity Fund	Vietnam	Investment fund	Social infra	2.6	2.2
Top 10 (% of portfolio)				**35.6**	**32.6**

Source: UEM, Edison Investment Research

Examples of portfolio companies in each of the megatrends

Serena Energia (energy transition) is the largest independent Brazilian renewable energy company with a portfolio of wind, solar and hydro assets. It has grown rapidly, expanding its installed capacity by more than 10x between 2016 and 2023, both through organic greenfield development and from acquisitions. Its Brazilian assets are primarily under long-term sales contracts with annual inflation adjustments, which removes pricing uncertainty. The company recently commissioned its first project in Texas in the US and is planning to implement a second project there later in 2024. Serena Energia has an entrepreneurial management team that is highly focused on returns, which has delivered a 38% compound annual EBITDA growth rate between the company's IPO in 2017 and the end of 2023. The company has robust double-digit growth forecasts and improving cash flows.

Aguas Andinas (social infra) is the largest water and sanitation provider in Chile, specialising in the production, distribution and treatment of water and sewage in Santiago's metropolitan area and Northern regions adjacent to the capital (Aguas Cordillera and Aguas Manquehue). The company oversees two primary treatment facilities in Greater Santiago, along with 14 treatment sites, including two bio factories. Despite challenging drought conditions in Chile, Aguas Andinas's operations have been resilient. The company has generated average annual 13.5% EBITDA growth since 2020, while keeping margins stable, underscoring its management's strategic foresight and the benefits of investment to mitigate the impacts of extreme weather and climate change.

InPost (digital infra) is a Polish company that owns and operates Europe's largest network of 35,000 automated parcel machines (APMs) and 27,370 pick-up, drop-off (PUDO) points across Poland and Western Europe. Between 2017 and 2023, compound annual growth rates were 60% in parcels, 62% in revenues and 129% in EBITDA. APMs are becoming increasingly popular with both merchants and end-customers in last-mile deliveries due to higher efficiency, 97% lower emissions than traditional door-to-door deliveries and around a 50% reduction in the total cost of delivery per unit. InPost has a significant footprint in Western Europe through its Mondial Relay subsidiary in France (5,300 APMs and 21,000 PUDOs) and has become the largest independent UK APM operator with more than 6,000 units. The company is also the largest logistics operator in Poland with 22,000 APMs, which, together with its to-door operations, delivered 590m parcels last year. In 2023, across the whole group, InPost delivered 892m parcels.

Grupo Traxion (global trade) is the leading Mexican logistics and mobility player and listed in 2017. The company operates through three main business units: logistics and technology, cargo mobility (cargo trucking across Mexico and abroad) and people mobility (school, personnel and tourism services, mainly under charter or contract schemes). Traxion's three segments are complementary, providing end-to-end services, transporting cargo from its clients to their final consumers. The company is benefiting from nearshoring in Mexico, and from being a large operator that can cover the whole of the very fragmented Mexican market. Despite 20% top-line estimated sales growth in 2024, the stock is trading at a modest EV/EBITDA multiple of around 6x.

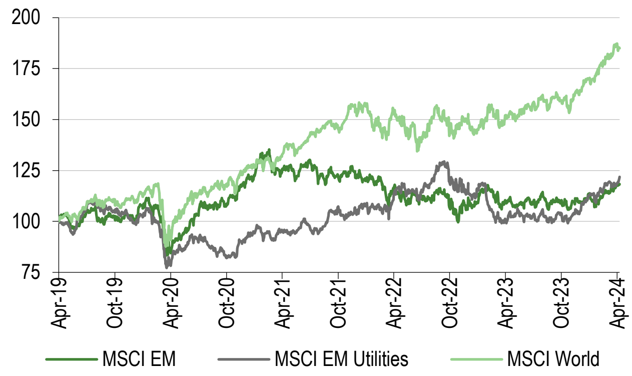
The emerging market backdrop

Over the last five years, the world market has considerably outperformed both emerging market and emerging market utility stocks (Exhibit 3, left-hand side) led by the dominant US, where the market has outperformed, particularly due to the strength in large-cap technology stocks.

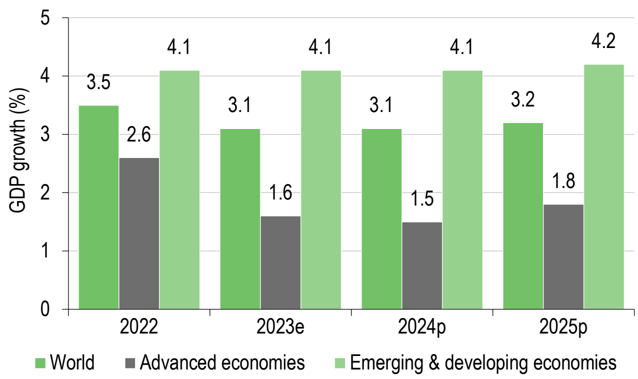
Although emerging markets can be associated with relatively higher share price volatility and political risk compared with advanced economies, it should be noted that they offer consistently superior growth prospects (Exhibit 3, right-hand side). In its World Economic Outlook, January 2024 update, in particular, the IMF projects Indian GDP growth of 6.5% in both 2024 and 2025. This compares with growth projections for China of 4.6% 2024 and 4.1% in 2025. In addition, the size of India's population is now estimated to have surpassed that of mainland China.

Exhibit 3: Market performance and growth outlook

Indices' total return performance (£-adjusted, past five years)



GDP growth (IMF World Economic Outlook, January 2024)

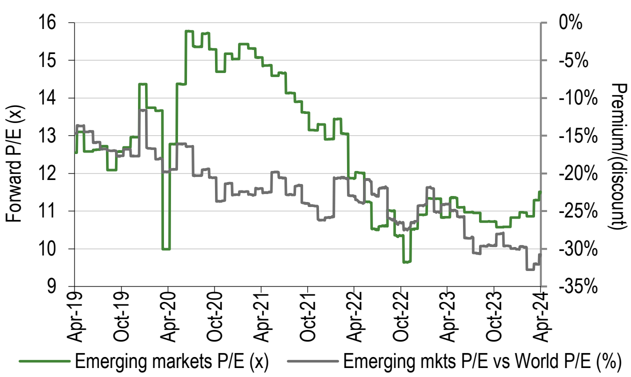


Source: LSEG, IMF, Edison Investment Research. Note: e is estimate, p is projection.

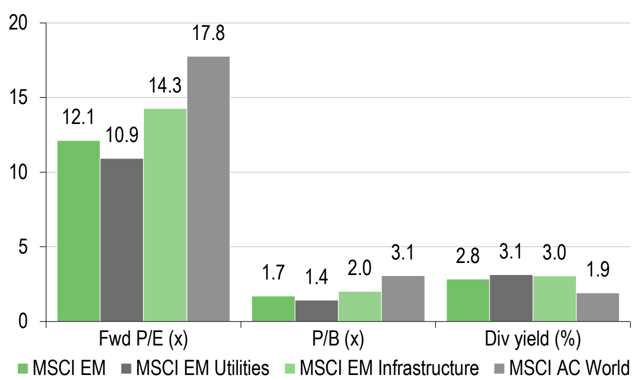
Emerging markets remain attractively valued in both absolute terms and versus developed markets (Exhibit 4, left-hand side), with the Datastream Emerging Market Index trading on an 11.5x forward P/E multiple, which is an 8.9% discount to its 12.6x five-year average. It is also trading at a 30.8% discount to the Datastream World Index, which is considerably wider than the 22.6% average discount over the last five years. Looking at Exhibit 4 (right-hand side), at the end of March 2024, the MSCI Emerging Markets, MSCI Emerging Markets Utilities and MSCI Emerging Markets Infrastructure indices were all trading at lower forward P/E and price-to-book multiples, while offering a higher dividend yield compared with the MSCI World Index.

Exhibit 4: Index valuations

Datastream EM Index valuation (last five years, at 9 April 2024)



Indices valuation metrics at 31 March 2024



Source: LSEG, MSCI, Edison Investment Research

Performance: Above the diverse sector's averages

UEM is a member of the AIC Global Emerging Markets sector. In Exhibit 5 we show most of the peers, excluding a small company that was launched relatively recently so does not yet have a one-year track record. The funds follow a variety of mandates, so a direct comparison is not possible, although a broad overview provides some perspective. UEM's NAV total returns are above average over all periods shown, and significantly so over the last three years. Its performance does not take the dilutive effect of the trust's historical subscription shares before February 2018 into account.

Exhibit 5: AIC Global Emerging Markets sector at 9 April 2024*

% unless stated	Market cap (£m)	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Utilico Emerging Markets	427.2	16.0	32.1	31.1	96.0	(19.5)	1.4	No	100	3.8
Barings Emerging EMEA Opps	63.4	18.0	(8.7)	(4.4)	37.4	(23.7)	1.6	No	100	3.2
BlackRock Frontiers	292.5	20.6	47.7	50.1	114.1	(7.4)	1.4	Yes	100	4.1
Fidelity Emerging Markets	518.0	15.6	(16.6)	0.4	55.5	(13.0)	0.8	No	100	2.3
Gulf Investment Fund	77.2	29.4	89.2	121.8	196.4	(5.8)	1.9	No	100	3.3
JPMorgan Em Europe, ME & Africa	50.9	16.9	(92.8)	(91.3)	(84.7)	153.6	3.2	No	100	0.4
JPMorgan Emerging Markets	1,174.6	1.4	(10.8)	21.3	119.4	(12.3)	0.9	No	100	1.6
JPMorgan Global Em Markets	396.4	9.2	5.3	30.8	98.6	(10.9)	0.9	No	108	3.9
Mobius Investment Trust	157.0	12.3	22.1	50.2		(7.6)	1.4	No	100	0.9
Templeton Emerging Mkts Inv Trust	1,722.2	11.3	(10.6)	20.1	83.6	(16.0)	1.0	No	100	3.2
Simple average	**487.9**	**15.1**	**5.7**	**23.0**	**79.6**	**3.7**	**1.5**		**101**	**2.7**
UEM rank (out of 10 funds)	**4**	**5**	**3**	**4**	**5**	**9**	**5**		**3**	**3**

Source: Morningstar, Edison Investment Research. Note: *Performance data at 9 April 2024 based on ex-par NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

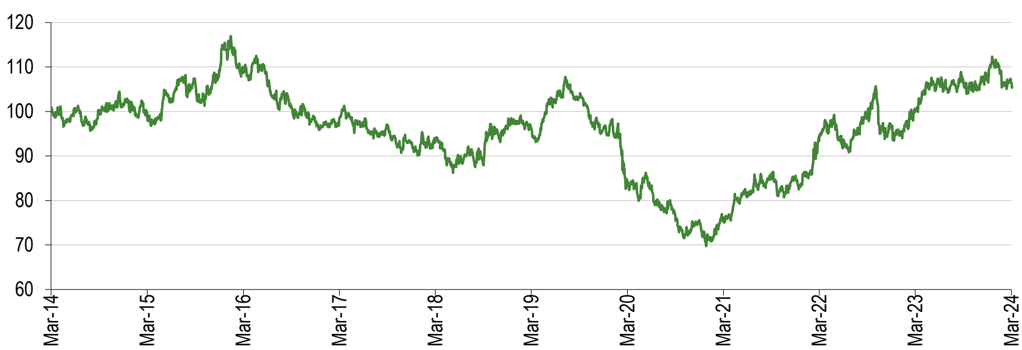
The average valuation and ongoing charge of the sector are distorted by JPMorgan Emerging Europe, Middle East & Africa Securities, which formerly invested in Russian securities. If this fund is excluded, UEM's discount is wider than the average 12.9% discount and its ongoing charge is modestly above the mean. Like most of its peers, UEM is currently ungeared. The trust has an attractive dividend yield, which is 1.1pp above the sector mean.

Exhibit 6: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI Emerging Markets (%)	MSCI EM Utilities (%)	CBOE UK All Companies (%)
31/03/20	(23.4)	(25.0)	(13.2)	(19.3)	(19.1)
31/03/21	27.4	30.3	42.8	17.8	26.6
31/03/22	17.7	15.0	(6.8)	16.2	13.2
31/03/23	0.7	2.0	(4.5)	(8.5)	3.8
31/03/24	5.9	12.9	6.3	16.3	8.4

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

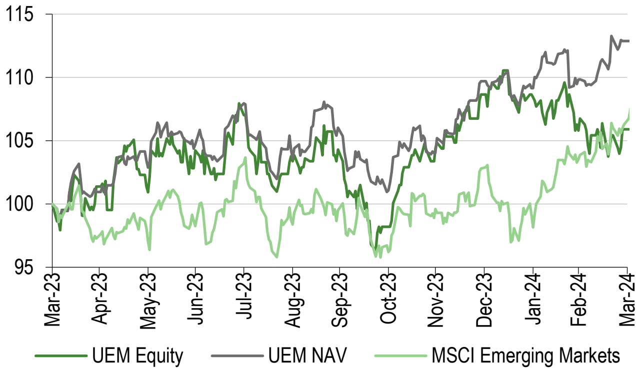
Exhibit 7: NAV total return performance versus MSCI Emerging Markets Index over 10 years



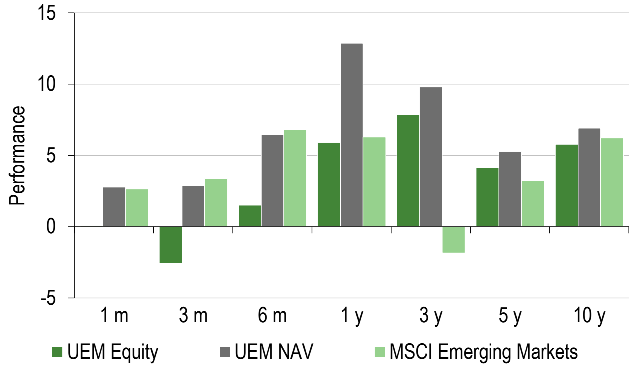
Source: LSEG, Edison Investment Research

Exhibit 8: Investment trust performance to 31 March 2024

Price, NAV and index total return performance, one-year rebased



Price, NAV and index total return performance (%)



Source: LSEG, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

UEM's relative performance is shown in Exhibit 9. Its NAV is ahead of the MSCI Emerging Markets reference index over the last one, three, five and 10 years, with notable outperformance over the last three years.

Compared with the MSCI Emerging Markets Utilities Index (utilities make up more than 25% of the fund), UEM has given back some relative performance over the last 12 months but remains ahead of the index over the last three and five years and has significantly outperformed over the last decade in both NAV and share price terms.

Commenting on UEM's outperformance, Jillings says that the trust's portfolio companies are surprising to the upside, as top-line growth and strict cost control is leading to margin expansion. The manager also notes that some emerging market economies are more robust than they used to be, including Brazil and Mexico, while emerging markets are now home to many substantial companies with very strong management teams. Jillings says that this continues to be underappreciated by global investors.

Exhibit 9: Share price and NAV total return performance, relative to indices (%)

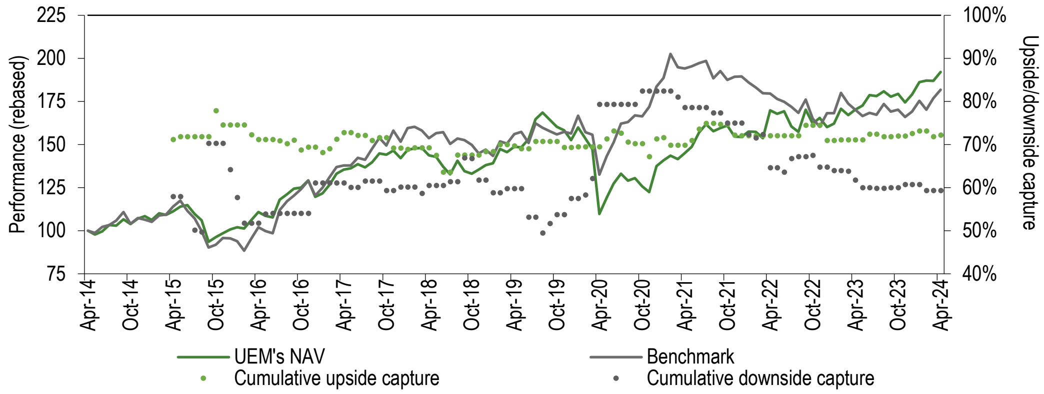
	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI Emerging Markets	(2.5)	(5.7)	(5.0)	(0.4)	32.7	4.4	(4.2)
NAV relative to MSCI Emerging Markets	0.1	(0.5)	(0.3)	6.2	39.9	10.2	6.6
Price relative to MSCI EM Utilities	0.3	(6.8)	(10.1)	(9.0)	1.5	4.1	19.8
NAV relative to MSCI EM Utilities	3.0	(1.6)	(5.8)	(3.0)	7.0	9.8	33.2
Price relative to CBOE UK All Cos	(4.3)	(6.2)	(5.0)	(2.3)	(1.4)	(6.1)	(0.5)
NAV relative to CBOE UK All Cos	(1.7)	(1.0)	(0.3)	4.1	3.9	(0.9)	10.6

Source: LSEG, Edison Investment Research. Note: Data to end March 2024. Geometric calculation.

UEM's upside/downside analysis

UEM offers a defensive exposure to emerging markets. At 30 September 2023, the company's five-year beta versus the MSCI Emerging Market Index (£ adjusted) was 0.83x. In Exhibit 10, we show the trust's upside/downside capture over the last decade. In months where emerging market stocks rose, on average, UEM captured 72% of the upside, whereas in months where emerging markets fell, the trust captured just 59% of the downside. In recent years, UEM's upside capture has remained pretty stable, while its downside capture has been more volatile, in line with the higher volatility in the broader stock market.

Exhibit 10: UEM's upside/downside capture



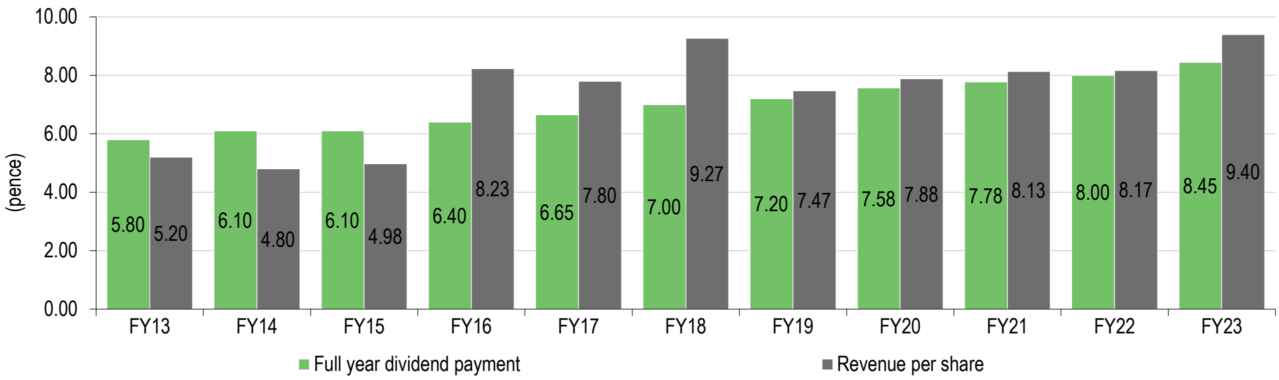
Source: LSEG, Edison Investment Research. Note: Cumulative upside/downside capture calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside 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 chart due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

Dividends: Progressive policy and fully covered

UEM's annual dividend has been increased or maintained every year since the company was launched in July 2005. Quarterly payments are made in September, December, March and June. Over the last five and 10 years, the dividend has compounded at an annual rate of 3.8%. More than 80% of UEM's investee companies pay dividends.

In FY23, the trust's 9.40p revenue earnings per share was 13.1% higher year-on-year, while the annual dividend of 8.45p per share was a 5.6% increase versus 8.00p in FY22. At the end of FY23, UEM had 4.74p per share in revenue reserves, which is equivalent to c 0.6x the last annual dividend. So far in FY24, three interim dividends of 2.15p per share have been declared, the first was up 7.5% year-on-year, while the second and third were in line with the prior year's payments.

Exhibit 11: UEM's dividend and revenue history since FY13



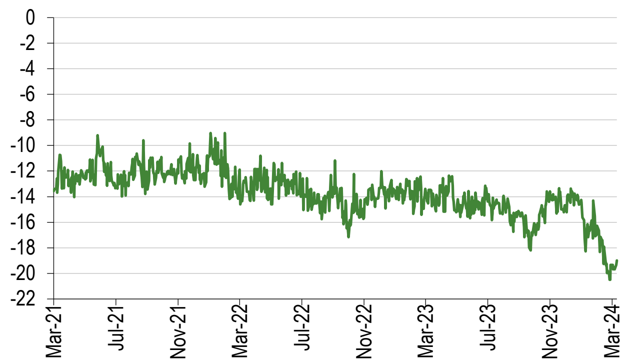
Source: UEM, Edison Investment Research

Discount: A way to go to reach the sub-10% target

In an uncertain macroeconomic environment with higher-than-average risk aversion, UEM's discount remains stubbornly wide, despite regular share repurchases, and is well above the board's sub-10% target. However, this phenomenon is not unique to this trust. Jillings suggests that for global investors seeking equity exposure, it is difficult to avoid the US as it dominates global indices, followed by a preference for domestic markets, with only modest appetite for shares in emerging market companies.

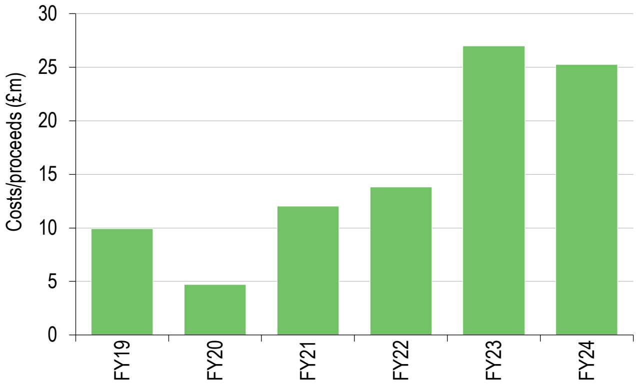
UEM's current 19.0% discount to cum-income NAV is at the wider end of its 9.0% to 20.5% range of discounts over the last three years and is wider than its historical averages. Over the last one, three, five and 10 years, the trust's average discounts are 15.3%, 13.7%, 13.3% and 11.8%, respectively.

Exhibit 12: Discount over three years (%)



Source: LSEG, Edison Investment Research

Exhibit 13: Share repurchases



Source: Morningstar, Edison Investment Research

The board typically repurchases UEM's shares when the discount has widened to more than 10% in normal market conditions. In FY24, c 11.4m shares (c 5.6% of the share base) were bought back at a cost of c £25.3m.

Fund profile: An emerging market equity specialist

Launched in July 2005, UEM was historically a Bermudan investment company, but redomiciled to the UK as an investment trust via a scheme of arrangement on 3 April 2018. It is listed on the Main Market of the London Stock Exchange and is managed by the ICM Group (ICM and ICM Investment Management), a specialist fund manager based in Bermuda and the UK with c $25.0bn of assets under management (c $1.8bn directly and c $23.2bn indirectly). ICM Group has more than 80 employees, who operate from 10 offices around the globe.

UEM is managed by qualified chartered accountant Charles Jillings, who has more than 30 years' experience in global financial markets. He aims to generate an attractive long-term total return from a diversified portfolio of emerging market equities, primarily in the infrastructure, utility and related sectors. Jillings employs a bottom-up stock-selection process and is unconstrained by benchmark allocations, although the MSCI Emerging Markets Index is used as a reference.

To mitigate risk, there is a series of internal investment guidelines in place (as a maximum percentage of gross assets at the time of investment): individual investment 10%; single country 35%; individual sector 25%; unquoted investments 10%; and top 10 holdings 60%. Gearing of up to 25% of gross assets is permitted. The trust's currency exposure is unhedged. From launch to end March 2024, UEM's NAV total return has compounded at an annual rate of 9.5%.

Investment process: Diligent bottom-up stock selection

Jillings and his team seek to identify and invest in companies, predominantly in the infrastructure and utility sectors, which are trading at a discount to their estimated intrinsic value, and which they believe have the potential to generate total returns of at least 15% pa, at an investee company level, over a five-year horizon. The focus is on emerging market countries with positive attributes such as political stability, economic development, an acceptable legal framework and an encouraging attitude to foreign investment.

UEM's investment team has a long-term investment horizon and avoids short-term stock market 'noise'. It can draw on the expertise of professionals in ICM's regional offices and has direct relationships with companies. There is a lot of travel involved, meeting with company managements and their operating assets. ICM is often the first phone call when an infra/utility IPO is announced, and its investment specialists are used as sounding boards ahead of companies listing. UEM's investment team is supportive of its investee firms in terms of their capital requirements by participating in follow-on equity offerings and the trust is often among their largest international shareholders.

Stocks are selected on a bottom-up basis following thorough fundamental research (including the construction of a detailed financial model and valuation targets) from an investible universe of more than 1,000 companies. There are c 80 holdings in the portfolio (typical range of 60–90). UEM has an active share approaching 100% versus the MSCI Emerging Markets Index; this is a measure of how a fund differs from an index, with 0% representing full replication and 100% no commonality.

Because of the nature of UEM's investments, in companies providing essential services, the trust has tended to underperform the MSCI Emerging Markets Index during a cyclical upturn led by sectors such as technology and consumer discretionary, while outperforming in a falling market.

UEM's approach to ESG

While UEM is not an ESG fund, its board believes it is in shareholders' best interests to consider environmental, social and governance factors when selecting and retaining investments. In conjunction with assessing the financial, macroeconomic and political drivers when making and monitoring an investment, the manager embeds ESG opportunities and risks into the trust's investment process. Companies are scanned using a rigorous in-depth framework; however, the decision as to whether to make an investment is not made on ESG grounds alone. The manager can consider a potential investment with a low ESG score but this will need to be outweighed by an attractive total return potential. Every investee company's ESG footprint is analysed, and there is often still room for improvement at some of these businesses. The manager works to understand a company's ESG journey and seeks an improving score.

Factors are incorporated into the trust's investment process in three main ways:

- **Understanding:** in-depth analysis of the key issues that face potential and current holdings, as well as a deep understanding of the industry in which they operate.
- **Integration:** incorporation of the output of the 'understanding' into the full financial analysis to ensure a clear and complete picture of the investment opportunity is obtained.
- **Engagement:** communication with investee companies on the key issues on a regular basis, both virtually and on location, where possible, to discuss and identify any gaps in their ESG policy to further develop and improve their disclosure and implementation.

ICM is a signatory to the United Nations-supported Principles for Responsible Investment, a code of best practice for incorporating ESG issues.

Gearing

UEM had a three-year unsecured £50m multicurrency revolving credit facility with The Bank of Nova Scotia (London branch) that expired on 15 March 2024. On 13 March 2024, UEM's board announced that the loan had been repaid, and it was currently in discussions regarding a replacement revolving facility; an announcement will be made in due course. Looking at the last

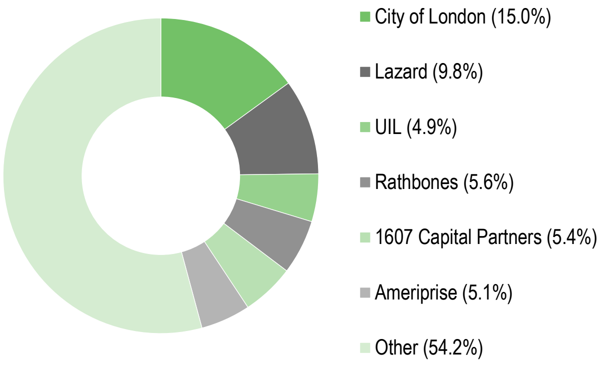
10 financial year-ends, the trust's leverage ranged from a 1.4% net cash position to net gearing of 10.6%. At end March 2024, UEM had a 1.1% net cash position.

Fees and charges

ICM is paid a management fee of 1.00% of UEM's NAV up to £500m; 0.90% above £500m up to £750m; 0.85% above £750m up to £1bn; and 0.75% above £1bn. There is no performance fee following its removal in April 2021. UEM's board believes that the simpler and more transparent cost structure should contribute to a stable and competitive ongoing charge, while helping to attract private wealth managers and retail investors. A tiered fee structure allows shareholders to benefit from the increasing economies of scale that a larger portfolio provides. In H124, UEM's ongoing charge ratio was 1.4%, which was in line with FY23.

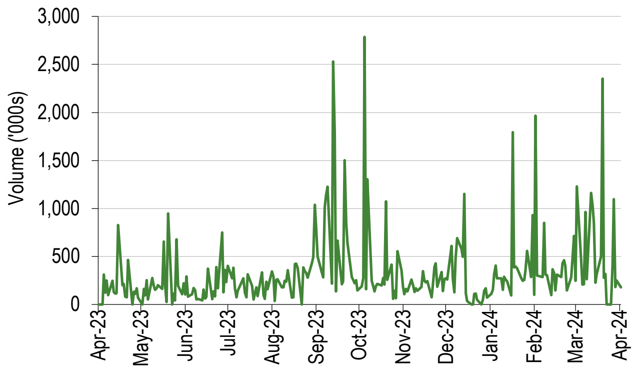
Capital structure

Exhibit 14: Major shareholders



Source: Bloomberg. Note: At 31 March 2024.

Exhibit 15: Average daily volume



Source: LSEG. Note: 12 months to 9 April 2024.

UEM has 190.7m ordinary shares in issue and its average daily trading volume over the last 12 months was c 357k shares. The trust has a five-yearly continuation vote, with the next due at the September 2026 AGM. The September 2021 vote was passed with 84.2% of shareholders voting in favour of UEM's continuation.

The board

Exhibit 16: UEM's board of directors

Board member	Date of appointment	Entitlement in FY24	Shareholding at 8 April 2024
John Rennocks (chairman since 2016)	November 2015	£52,500	169,808
Eric Stobart	October 2019	£49,100	73,000
Mark Bridgeman	September 2021	£38,900	26,074
Isabel Liu	November 2021	£38,900	35,721

Source: UEM

Following the retirement of Susan Hansen at the September 2023 AGM, the board is continuing with four directors, all of whom are independent. The directors' fees are used to acquire UEM shares, ensuring all shareholders' interests are aligned. The FY24 entitlements are 5% higher than those paid out in respect of FY23.

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