![EDISON]

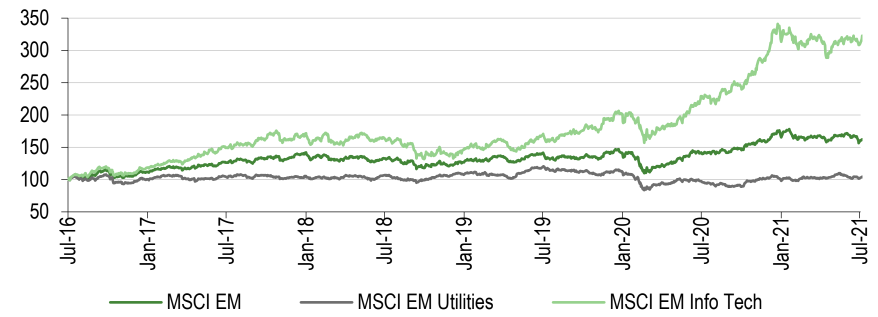
Utilico Emerging Markets Trust

Strong performance ahead of continuation vote

Investment trusts
EM infrastructure and utilities

Utilico Emerging Markets Trust (UEM) is facing a continuation vote at the September 2021 AGM; since inception, the fund has generated NAV total returns of c 10.0% pa and has outperformed the MSCI Emerging Markets Index over the last decade. It is managed by Charles Jillings at specialist investment firm ICM Group. The manager is very encouraged by the robust operating performance of the majority of UEM's investee companies, helped by higher revenues and strict cost control, which has been supportive for their share prices this year. UEM has an above-market dividend yield and the growing annual distribution is fully covered by portfolio income.

Emerging market technology stocks have started to give back some of their strong outperformance versus emerging markets and emerging market utility stocks in recent quarters



Source: Refinitiv, Edison Investment Research

The analyst's view

Emerging markets offer the prospect of above-average economic growth and relatively attractive valuations compared with global equities. UEM is a specialist geographically diversified fund primarily focusing on high-quality utility and infrastructure businesses. These companies' financial models generally have high operating leverage, with their long-term assets operating under established regulatory frameworks, and should continue to deliver predictable and sustainable income streams that support UEM's regular quarterly dividend payments. The trust's annual dividend has grown or held steady every year since the fund was launched in July 2005. Over the last 12 months UEM has delivered a very respectable absolute 21.9% NAV total return, despite a c 5% currency headwind so far this year due to the strength of sterling. UEM's investee companies are continuing to deliver very strong results helped by a global economic recovery as the COVID-19 vaccine programme gains momentum. Jillings is very confident that there is significant upside potential in the current portfolio that is yet to be realised.

Scope for a higher valuation

UEM's shares are currently trading at a 13.9% discount to cum-income NAV, which compares with the 12.2% to 13.2% range of average discounts over the last one, three and five years. There is scope for a higher valuation if UEM's performance continues to improve compared with the broader market or if there is increased investor appetite for emerging market equities.

NOT INTENDED FOR PERSONS IN THE EEA

20 August 2021

Price		**210.0p**
Market cap		**£462m**
AUM		**£577m**

NAV*		244.0p
Discount to NAV		13.9%
*Including income. At 18 August 2021.		
Yield		3.7%
Ordinary shares in issue		219.9m
Code/ISIN		UEM/GB00BD45S967
Primary exchange		LSE
AIC sector		Global Emerging Markets
52-week high/low	229.0p	168.5p
NAV* high/low	253.0p	196.1p
*Including income		
Net gearing*		3.3%
*At 31 July 2021.		

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 persistently wider than board's desired level of 10%.
- The utility and infrastructure sectors have lagged the performance of the MSCI Emerging Markets Index.
- Emerging market indices can be more volatile than those in developed markets.

Analysts

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Market outlook: Favourable growth drivers in EM

Emerging market stocks have recovered, notwithstanding the recent underperformance of Chinese stocks, following the coronavirus-led sell-off in early 2020, and there are several reasons to suggest why GDP growth potential in these regions is superior to that in developed economies. These include:

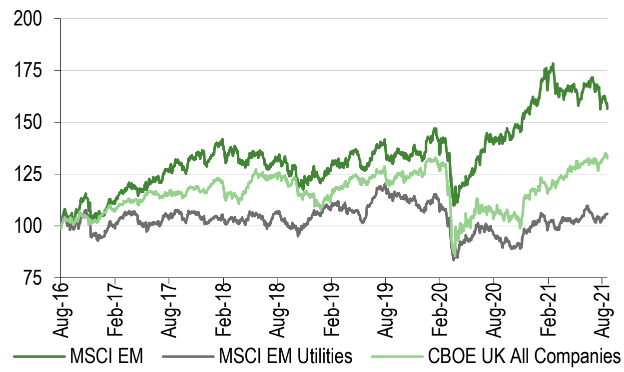
- **Urbanisation** – migration from rural areas to cities is driving demand for infrastructure projects such as roads, railways, power networks, telecommunications and sanitation.
- **Rise in the middle class** – this is driving overall consumption and demand for both a broad range of services and consumer durable goods.
- **Environmental policy** – the need to address climate change is driving developments in areas such as renewable energy, battery storage, electric vehicles and waste treatment.
- **Geopolitics and globalisation** – changing dynamics of trading relationships is leading to significant shifts in supply chains, transportation and logistics.
- **Digitisation** – emerging markets have the opportunity to provide digitally delivered services to the global market, leveraging their young well-educated workforces and lower operating costs.

In its July 2021 World Economic Outlook update, the International Monetary Fund forecast GDP growth of 6.3% in 2021 and 5.2% in 2022 for emerging markets and developing economies compared to 5.6% and 4.4% respectively for advanced economies.

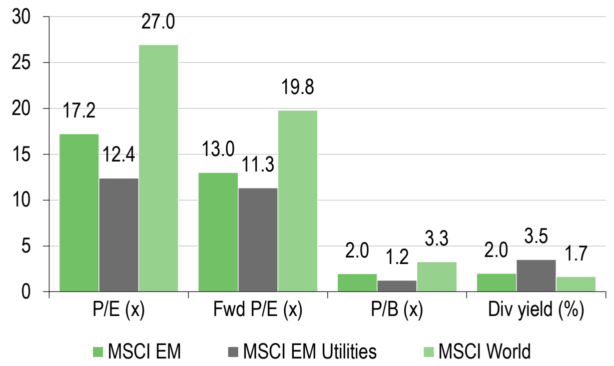
As shown in Exhibit 1 (RHS), emerging market equities remain undervalued, versus the world market and offer a higher dividend yield; this is particularly true for the emerging markets utilities sector. Given the backdrop of above-average growth potential and relatively attractive valuations, investors may benefit from an allocation to emerging markets.

Exhibit 1: Market performance and valuation

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



Indices valuation metrics at 31 July 2020



Source: Refinitiv, MSCI, Edison Investment Research

The fund manager: Charles Jillings

The manager's view: Encouraged by corporate earnings growth

Jillings has a high level of confidence in the business strength of UEM's investee companies noting that the majority of them are posting very robust results. He highlights the trust's largest position in Philippine global port manager International Container Terminal Services (ICTS), which he says recently released 'extraordinarily strong results with proper top line growth and good cost control'. Its Q221 numbers were even better than in Q121, helped by '4C' initiatives undertaken at the start of the coronavirus pandemic – cash preservation, capex reassessment, capital structure strength and flexibility, and cost control. The company notes that its business is 'running full steam ahead'.

During the quarter, volumes rose by 20% year-on-year (to the highest-ever level), revenues by 28%, EBITDA by 31% and net income by 98%; while these strong results were partly due to easy year-on-year comparisons, they provide evidence of the company's good management.

Commenting on the global macroeconomic background, the manager says that 'consumer demand has clearly held up and is feeding into a wide range of businesses'. However, he notes that China is having to deal with an outbreak of the COVID-19 delta variant and this strain is pushing back the escape from the pandemic. Multiple lockdowns continue as the delta variant is more easily transmissible, so containment methods are being resumed. Jillings highlights this issue as a cautionary note in terms of economic growth as many countries have been negatively affected by the delta variant and are working through it. The manager suggests that for economies to fully open, the level of herd immunity to COVID-19 needs to be greater than 90% (a level cited recently by the US Centres for Disease Control and Prevention), which is higher than initial estimations of 60%+ and is causing delays to the resumption of travel and the unlocking of economies. Jillings says that we are seeing the effects of the delta variant across emerging markets and in countries that had previously brought coronavirus under control, such as Australia, Japan, South Korea and Vietnam, which have seen a surge in cases. These countries have been slower to roll out the COVID-19 vaccines than in the UK and the manager suggests that now we know more how to handle the pandemic, economies should be able to reopen more quickly by increasing vaccination rates, although access to vaccines in emerging markets can be challenging.

Jillings comments that the very strong Q221 earnings season has been partly helped by easy comparables, but company fundamentals remain strong. In addition, the coronavirus pandemic has accelerated the digital economy, driving higher GDP growth. He has been using stock market strength to actively reduce UEM's gearing as the share prices of many of the trust's holdings have appreciated considerably. The manager says that people are seeking yield, so as interest rates have declined there has been increased stock market participation by retail investors, such as in South Korea. They have been switching away from low-yielding investments; Jillings believes that retail investors will remain engaged given the expectation that interest rates will be 'lower for longer'.

The manager discusses regulatory developments in China, which have negatively affected large-cap technology stocks in particular. There are also question marks about Chinese companies with a US listing. Holders gain access to these businesses via an economic interest contract known as a Variable Interest Entity and there are rumours that the Chinese government is reviewing this structure. Furthermore, it has imposed strong regulation on the education sector as after-school tutoring is no longer allowed and Investors are therefore concerned that there could be similar crackdowns in other sectors.

Overall, Jillings remains positive on the outlook for emerging market equites, but he is mindful that how countries emerge from the delta variant is very important, as they are employing different approaches so will have different outcomes. This element of caution is reflected in UEM's lower level of gearing.

Current portfolio positioning

At end-July 2021, UEM's top 10 holdings made up 30.7% of the portfolio, which was lower than 32.6% a year before; seven positions were common to both periods. Historically, the company disclosed its top 20 holdings each month but since March 2021 now discloses its top 30 positions, which make up around two-thirds of the portfolio. Over time the weighting to some of the manager's higher-conviction positions has declined and he is mindful of ensuring shareholders retain an adequate level of visibility about the fund's structure.

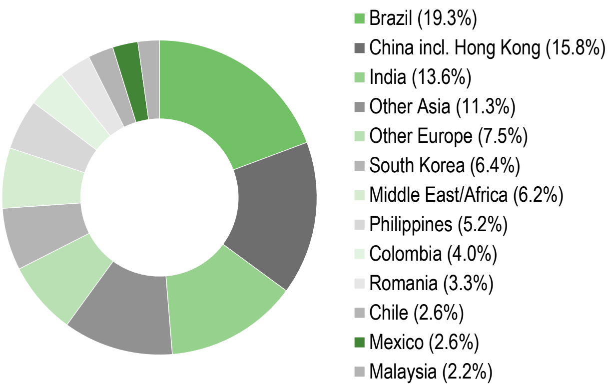
Exhibit 2: Top 10 holdings (at 31 July 2021)

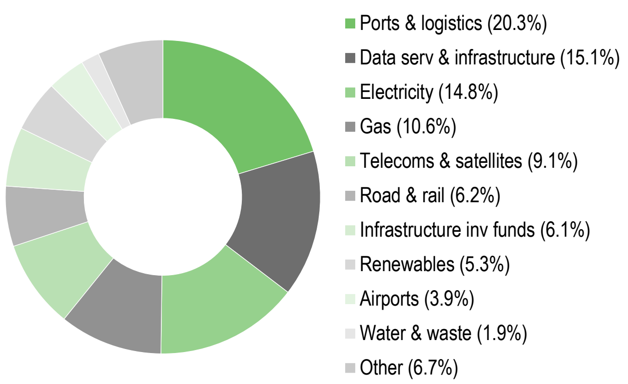
Company	Country	Sector	Portfolio weight %	
			31 July 2021	31 July 2020*
International Container Terminal Services	Philippines	Ports operator & shipping services	5.2	5.8
Gujarat State Petronet	India	Gas transmission	3.9	2.6
Simpar	Brazil	Logistics & transportation	3.8	N/A
India Grid Trust	India	Infrastructure company	3.1	3.1
Ocean Wilsons Holdings	Brazil	Ports operator & shipping services	3.0	2.8
Alupar Investimento	Brazil	Electricity generation & transmission	2.9	3.8
Rumo	Brazil	Rail-based logistics operator	2.4	2.4
MyEG Services	Malaysia	Payments technology	2.2	N/A
Corporacion Financiera Colombiana	Colombia	Infrastructure company	2.1	N/A
China Everbright Greentech	China	Biomass integrated utilisation & waste treatment	2.1	3.3
Top 10 (% of portfolio)			**30.7**	**32.6**

Source: UEM, Edison Investment Research. Note *N/A where not in end-July 2020 top 10.

Exhibit 3 shows that UEM's portfolio is widely diversified by both geography and sector. Its exposure to data services and infrastructure companies has continued to increase due to share price performance.

Exhibit 3: Portfolio geographic (left) and industry (right) exposure (at 31 July 2021)





Source: Utilico Emerging Markets Trust, Edison Investment Research

Jillings highlights a few of UEM's larger positions. He notes that Simpar's shares have performed very strongly. It is a Brazil-listed holding company with six independent subsidiaries (three of which are listed on the Brazilian stock exchange). The manager suggests that Simpar is trading at a 30–40% discount to its sum of its parts. Shares in subsidiary Vamos – heavy-duty truck leasing – have appreciated significantly since the January 2021 initial public offering. The other listed subsidiaries Movida (car rental) and JSL Logistica have also posted strong results recently, helping Simpar to grow at a double-digit rate. The holding company is also making a number of small acquisitions that fit in well with its existing portfolio.

Gujarat State Petronet (GSPL) is the main gas transmission company in Gujarat State in India with 2,600km of gas pipelines connected to domestic gas fields and liquified natural gas (LNG) terminals. It also has a 54% stake in Gujarat Gas, a listed city gas distribution company. In FY21 (ending 31 March), GSPL's revenues declined by 6% due to lower volumes and tariffs (as a result of lower LNG prices). However, good cost control, in a challenging environment, enabled EBITDA to rise by 12.3% year-on-year and the annual dividend was maintained. Furthermore, the recent June quarterly results showed a strong bounce back from the negative impact of the coronavirus pandemic with EBITDA and EPS more than doubling year-on-year. Jillings suggests that GSPL is materially undervalued.

Vietnam-listed FPT Corp (UEM's 13th largest holding) has three divisions: technology (IT services – 56% of H121 revenues and 44% of pre-tax profits); telecom (broadband and data centres – 38% of H121 revenues and 41% of pre-tax profits); and education, investment & other (education is a private university with multiple campuses, technical colleges and schools – 6% of H121 revenues and 15% of pre-tax profits). The manager believes that all three divisions have attractive, sustainable growth prospects. In aggregate, FPT's H121 revenues rose by 19.2% year-on-year, while its pre-tax profit was up by 20.9%. Vietnam has a competitive advantage compared with some other countries such as India in terms of a cheaper labour force, while like many other Asian countries it has a highly numerate population. Operating a university means that FPT has access to, and can subsequently potentially employ, the best students.

VinaCapital Vietnam Opportunity Fund (VOF – UEM's 18th largest holding) is a closed-end investment company whose portfolio includes listed and unlisted equities and debt instruments, covering a broad range of sectors. Its shares have appreciated by more than 40% over the last 12 months. Vietnam fared relatively well during the first COVID-19 wave and has managed to keep its factories operational to sustain economic growth; consensus GDP growth expectations for 2021 are +6–7% from a resilient +2.9% 2020 base. The country is benefiting from the trade frictions between China and the United States as companies shift their Asian manufacturing operations away from China; Jillings suggests that this is a strong tailwind to Vietnam's economic growth.

Performance: Long-term record of outperformance

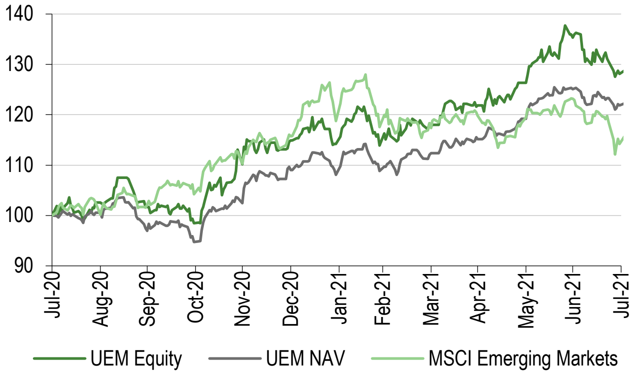
Exhibit 4: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI Emerging Markets (%)	MSCI EM Utilities (%)	CBOE UK All Companies (%)
31/07/17	13.7	15.7	26.2	3.7	15.0
31/07/18	(3.9)	0.3	5.3	3.2	9.1
31/07/19	27.6	21.3	5.2	11.9	1.1
31/07/20	(29.4)	(24.2)	(0.3)	(19.8)	(18.5)
31/07/21	28.1	21.9	14.2	6.6	26.4

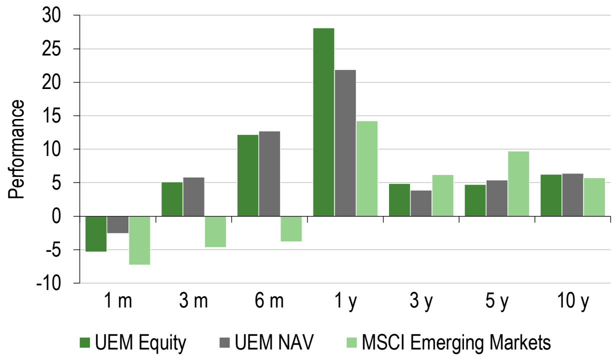
Source: Refinitiv. Note: All % on a total return basis in pounds sterling. MSCI and CBOE indices are shown for illustrative purposes.

Exhibit 5: Investment trust performance to 31 July 2021

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



Price, NAV and benchmark total return performance (%)



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

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 MSCI Emerging Markets	2.1	10.3	16.6	12.1	(3.7)	(20.8)	5.5
NAV relative to MSCI Emerging Markets	5.1	11.0	17.2	6.7	(6.5)	(18.4)	6.8
Price relative to MSCI EM Utilities	(2.8)	5.5	7.4	20.1	20.6	23.2	75.7
NAV relative to MSCI EM Utilities	(0.0)	6.2	7.9	14.3	17.1	27.0	77.9
Price relative to CBOE UK All Cos	(5.8)	3.1	(0.8)	1.4	10.7	(3.6)	(3.2)
NAV relative to CBOE UK All Cos	(3.0)	3.8	(0.3)	(3.6)	7.6	(0.6)	(2.0)

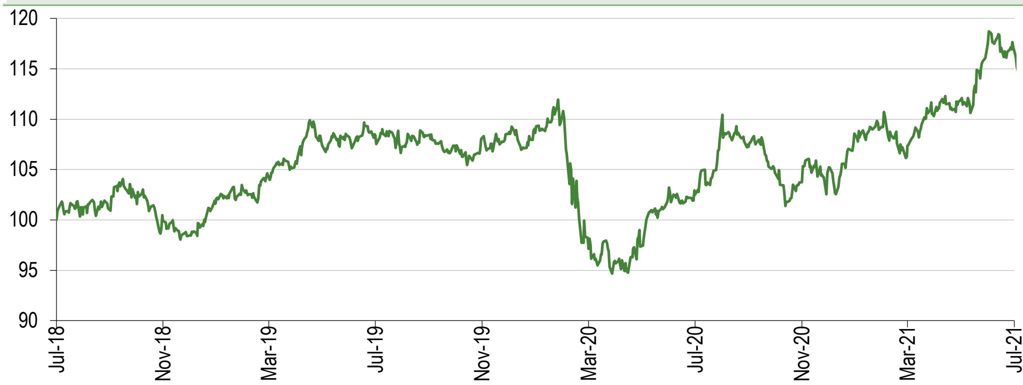
Source: Refinitiv, Edison Investment Research. Note: Data to end-July 2021. Geometric calculation.

As shown in Exhibit 6, UEM's performance is ahead of the MSCI Emerging Markets Index over the last one and 10 years in both NAV and share price terms, while the trust has significantly outperformed the MSCI Emerging Markets Utilities Index over the last one, three, five and 10 years.

Commenting on UEM's relative performance, Jillings explains that during the 2020 lockdowns, investors sought businesses that were beneficiaries of COVID-19 and bid up the share prices of companies operating in the digital economy. Following successful coronavirus vaccine trial results in November last year, attention turned to value stocks and those sectors that would benefit from an economic recovery. The broadening of stock market leadership has been beneficial for UEM's relative performance, and despite share price appreciation the manager says valuations in the areas where the trust invests remain attractive as corporate earnings growth is very strong.

Holdings that have made a particularly strong contribution to UEM's performance this year include International Container Terminal Services, Ocean Wilsons Holdings, Gujarat State Petronet, Simpar and FPT Corp. Stocks that have detracted include China Everbright Greentech (regulatory uncertainty) and Engie Energia Chile (the country has political challenges). Jillings believes that both of these names were oversold so he has added to UEM's positions in these stocks.

Exhibit 7: NAV TR performance relative to MSCI EM Utilities Index over three years – strong recovery from H120 weakness



Source: Refinitiv, Edison Investment Research

Peer group comparison

Exhibit 8: Selected peer group at 19 August 2021*

% 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	461.8	22.6	12.9	22.7	101.7	(14.0)	1.4	No	103	3.7
Aberdeen Emerging Markets	326.8	23.4	36.3	56.9	96.1	(12.1)	1.0	No	100	0.0
BlackRock Frontiers	225.3	36.9	6.8	26.5	149.8	(9.0)	1.4	Yes	110	4.4
Fundsmith Emerging Equities Trust	361.8	18.0	20.8	35.5		(8.8)	1.3	No	101	0.1
Genesis Emerging Markets Fund	1,043.4	10.6	27.0	44.8	93.9	(7.6)	1.1	No	100	1.5
JPMorgan Emerging Markets	1,537.3	22.3	50.0	86.7	183.6	(7.5)	0.9	No	100	1.1
JPMorgan Global Emerg Mkts Inc	428.0	26.2	34.3	55.5	140.0	(7.6)	1.2	No	106	3.5
Mobius Investment Trust	144.5	35.1				(1.1)	1.5	No	100	0.0
Templeton Emerging Mkts Inv Trust	2,086.0	8.9	30.3	63.3	93.6	(9.0)	1.0	No	101	3.3
Simple average	**735.0**	**22.7**	**27.3**	**49.0**	**122.7**	**(8.5)**	**1.2**		**102**	**2.0**
UEM rank (out of 9 funds)	**4**	**5**	**7**	**8**	**4**	**9**	**2**		**3**	**2**

Source: Morningstar, Edison Investment Research. Note: *Performance data at 19 August 2021 based on ex-par NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

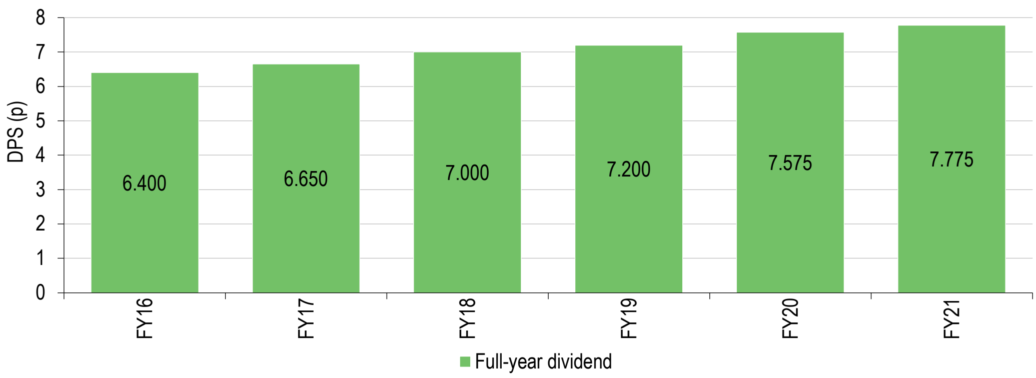
UEM is a member of the AIC Global Emerging Markets sector. In Exhibit 8 we show the nine funds with market caps above £100m – it should be remembered that UEM has a unique strategy, focusing on the utility and infrastructure sectors, so a direct comparison with its peers is not possible. Its NAV total returns are below average over the periods shown (broadly in line over the last 12 months), which is unsurprising given the lower-beta nature of its investments and a strong bull market over the last decade. These returns do not take the dilutive effect of the trust's historical subscription shares before February 2018 into account. UEM's discount is currently the widest in the selective peer group, it has an above-average ongoing charge and a level of gearing that is modestly above the mean. The trust's dividend yield is the second highest in the selected peer group, 1.7pp above the average and the only one of the higher-yielding funds paying its dividends entirely out of income rather than partially from reserves.

Dividends

UEM's board employs a progressive dividend policy; the annual distribution has been increased or maintained every year since the fund was launched. Quarterly dividends are paid in September, December, March and June from income or capital when required. In FY21 (ending 31 March 2021), the annual dividend was 7.775p per share, which was 2.6% higher than 7.575p per share in FY20, it was 1.05x covered.

The fourth interim dividend was 2.000p per share and the board is confident that this quarterly rate can be maintained in FY22, which would imply a 2.9% increase in the full-year dividend. Jillings is encouraged by the improvement in UEM's receipts; in H121 total revenue income was 81.3% of the prior year's level, which increased to 94.9% for FY21. This is despite data services & infrastructure now representing c 15% of the portfolio; these companies are generally higher growth and pay low or zero dividends. Based on its current share price, UEM offers an attractive 3.7% dividend yield.

Exhibit 9: Dividend history since FY16



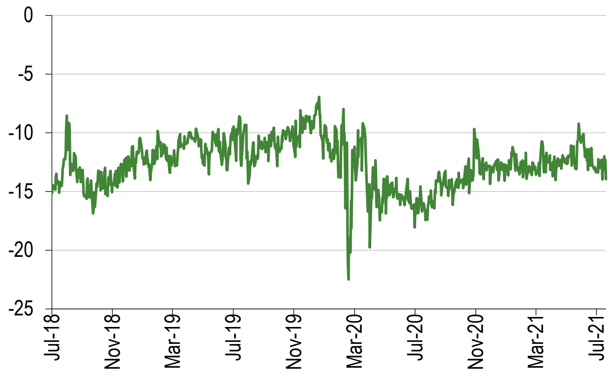
Source: Bloomberg, Edison Investment Research

Valuation: Board aspires for sub-10% discount

UEM's discount has continued to be in a somewhat narrowing trend in 2021, which Jillings suggests may be due to a broadening of stock market leadership. The trust's current 13.9% share price discount to cum-income NAV compares with a 9.2% to 17.4% range over the last 12 months and average discounts of 13.2%, 12.6%, 12.2% and 10.0% over the past one, three, five and 10 years respectively. UEM's board aspires for a discount below 10%.

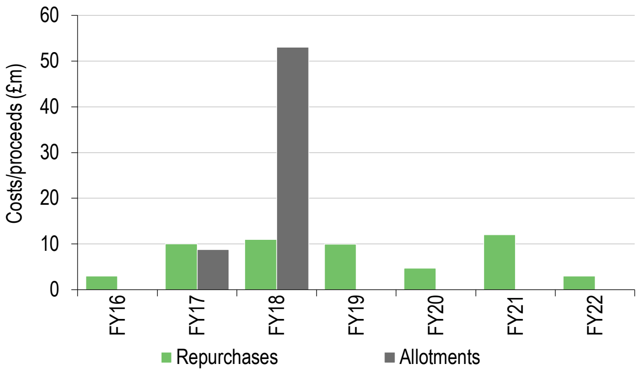
Historically, UEM's shares have been repurchased when the discount has widened to more than 10% in normal market conditions. In FY21, c 6.6m shares (c 2.9% of the share base) were bought back at a cost of c £12.1m. The trust's board believes the most effective way to manage the discount over the long term is to generate good performance and increase demand for UEM's shares in the secondary market by increasing awareness of its philosophy and process.

Exhibit 10: Discount over three years (%)



Source: Refinitiv, Edison Investment Research

Exhibit 11: Buybacks and issuance



Source: Morningstar, Edison Investment Research

Fund profile: 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), which is a specialist fund manager based in Bermuda and the UK with c $25bn of assets under management (c $3bn directly and c $22bn indirectly).

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 are a series of 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 (5%); and top 10 holdings (60%). Gearing of up to 25% of gross assets is permitted; at end-July 2021, UEM had net gearing of 3.3%. From launch to the end-July 2021, UEM's NAV total return has compounded at 9.8% pa.

Investment process: Diligent bottom-up stock selection

Jillings seeks to identify and invest in companies predominantly in the infrastructure and utility sectors that are trading at a discount to his estimated intrinsic value and which he believes have the potential to generate total returns of at least 15% pa, at an investee company level, over a five-year horizon. Jillings focuses on emerging market countries with positive attributes such as political stability, economic development, an acceptable legal framework and an encouraging attitude to foreign investment. The manager has a long-term investment horizon and avoids short-term stock market 'noise'.

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 90 holdings in the portfolio, which is at the high end of the typical 60–90 range. 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. Jillings is supportive of UEM's 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.

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

UEM's board believes it is in shareholders' best interests to consider environmental, social and governance (ESG) 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.

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

As an example of UEM's approach to ESG Jillings cites meetings with Ocean Wilsons where discussions have included the potential for a corporate restructuring and ensuring that minority interests are looked after. Progress is being made as the company's 58%-owned subsidiary Wilson Sons is undertaking a reorganisation to enable it to list on the Novo Mercado segment of the Brazilian Stock Exchange and there are two independent women on Ocean Wilson's board. The manager says that companies are realising the importance of ESG and disclosure is increasing – for example, International Container Terminal Services is now releasing ESG information for more than just the largest of its port assets.

Gearing

UEM has a three-year unsecured £50m revolving credit facility with The Bank of Nova Scotia (London branch) that expires on 15 March 2024. In light of the rising uncertainties around the delta variant, the manager began to reduce UEM's investments from June 2021 onwards into stock market strength and pay down debt. As a result, debt declined from £50m at end-June 2021 to £35m at end-July 2021 (net gearing of 3.3%) and has since been reduced further.

Fees and charges

On 25 March 2021, UEM announced changes to its investment management fees. From the start of FY22 (1 April 2021) ICM is paid 1.00% of NAV up to £500m; 0.90% above £500m up to £750m; 0.85% above £750m up to £1bn; and 0.75% above £1bn (previously a flat fee of 0.65% of NAV). The performance fee is no longer payable – it was historically based on returns above the UK Gilt five- to 10-year Index post-tax yield plus RPIX inflation plus 2%, subject to a minimum of 8%.

UEM's board believes that the removal of the performance fee will result in a simpler and more transparent cost structure, which should contribute to a stable and competitive ongoing charge, while helping to attract private wealth managers and retail investors.

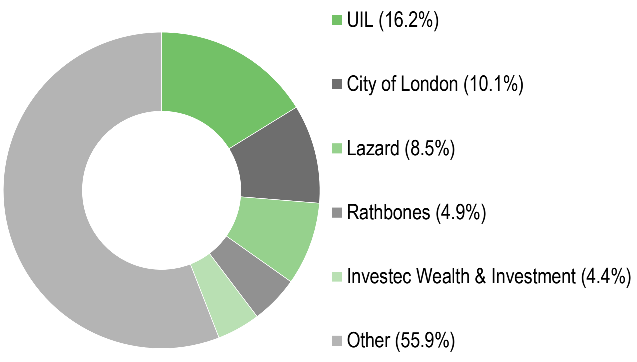
A tiered fee structure allows shareholders to benefit from the increasing economies of scale that a larger portfolio provides. Following these changes and the removal of the performance fee, UEM's ongoing charges ratio is 1.4%.

Capital structure

UEM has 219.9m ordinary shares in issue and its average daily trading volume over the last 12 months is c 350k shares. A notable change in the shareholder base is that City of London Investment Group now owns around 10% of the company.

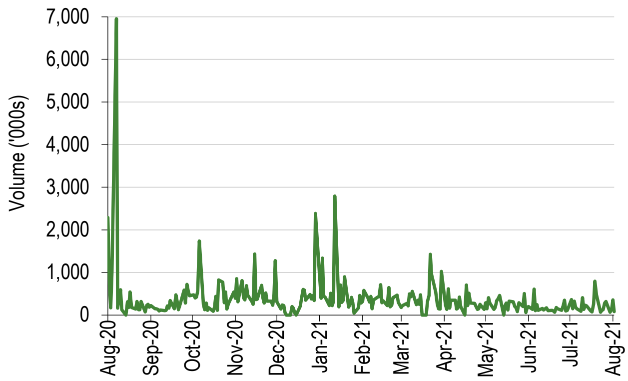
The trust has a five-yearly continuation vote, next due at the September 2021 AGM. Given UEM's positive long-term performance track record, the board strongly recommends that shareholders vote in favour of this resolution.

Exhibit 12: Major shareholders



Source: Bloomberg, at 16 June 2021

Exhibit 13: Average daily volume



Source: Refinitiv. Note: 12 months to 19 August 2021.

The board

Exhibit 14: UEM's board of directors

Board member	Date of appointment	Entitlement in FY21	Shareholding at 18 June 2021
John Rennocks (chairman since 2016)	November 2015	£46,000	183,390
Anthony Muh	October 2010	£34,000	219,870
Susan Hansen	September 2013	£34,000	127,569
Garth Milne	November 2014	£34,000	817,942
Eric Stobart	October 2019	£43,000	33,500

Source: UEM

The directors' fees are paid in UEM shares, ensuring all shareholders' interests are aligned. Susan Hansen is considered non-independent as she is also on the board of Resimac Group, which is associated with ICM. Garth Milne has announced his intention to retire at the September 2021 AGM; the board is in the process of appointing a new director.

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