Solid interims and plans for the future

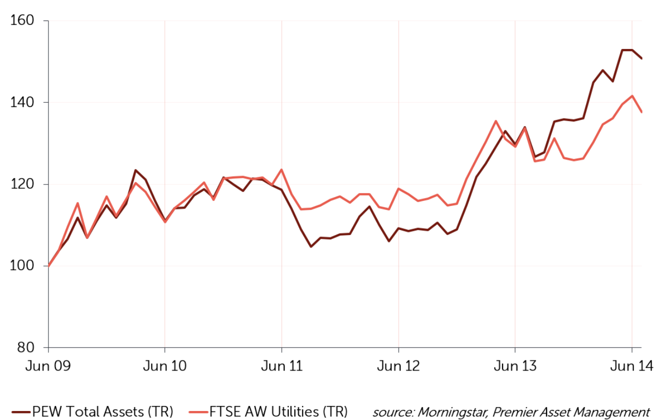
13/08/2014

Premier Energy & Water's interim results show that the portfolio beat comparable indices over the first half of 2014 and the gross assets outperformed again in July, further extending the run of good performance generated by the Trust since the manager and the investment approach changed two years ago.

After consulting shareholders (holders of both the ordinary and zero dividend preference shares), the Board believes there is appetite for the company to continue beyond its planned wind up date in 2015 and is putting forward proposals to restructure the company.

AIC Sector	Split Capital
Benchmark	None
Base Currency	Pound Sterling
Ordinary share price	1.88
Ordinary share NAV	1.94
Discount (-ve) / Premium (+ve)	-3.70
Ordinary share yield	6.95
ZDP price	2.12
ZDP NAV	2.03
Ongoing charges (%) on ords	3.90
Ongoing charges (%) on gross assets	1.40

PEW total return on Gross Assets vs. FTSE All World Utilities Index over 5 years



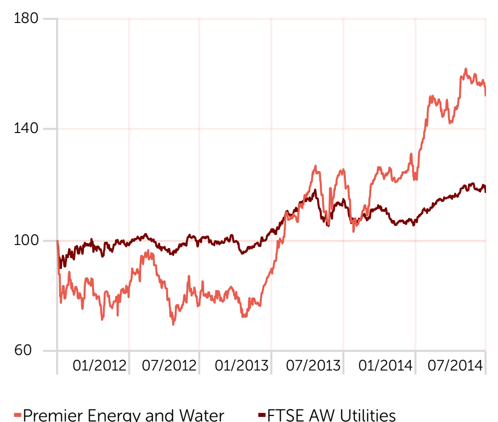
NB: PEW does not have a benchmark but we compare it to the FTSE All World Utilities Index

Investment Objective

The Premier Energy and Water Trust ("PEW") aims to achieve a high level of income and realise long-term growth in the value of its portfolio. It invests principally in the equity and equity related securities of companies operating in the energy and water sectors (often called "utilities") as well as other infrastructure Investments.

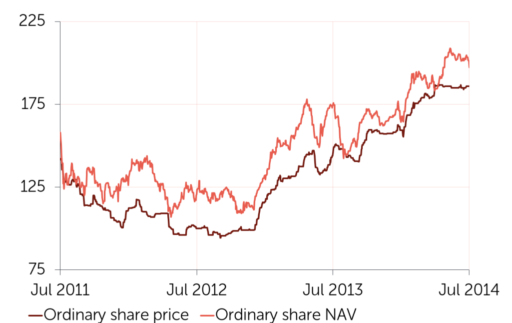
Ordinary share price TR vs. benchmark TR

Time Period: 01/08/2011 to 31/07/2014



Ordinary share price vs. NAV

Time Period: 01/08/2011 to 31/07/2014



2014 H1 performance ahead of comparable indices

Over the six months ended 30 June 2014, the gross assets total return for PEW was 12.6%. This was in line with the FTSE All World Utilities Index (+12.4%) and compares favourably to the FTSE All World Index (+3.1%) and the FTSE All-Share Index (+1.6%).

Thanks to the gearing effect of the zero dividend preference shares ("ZDPs" or "zeros"), the net asset value of PEW's ordinary shares rose by 20.6% to 202.05p. PEW's discount at the end of June 2014 was 8.4%, slightly wider than its level of 6.1% at the end of December 2013 but has narowed again since. The total return on net assets for the ordinary shares was 26.8% for the period. The total return on the share price was 23.0%. The underlying dividend for the period was increased by 5.6% to 3.8p (from 3.6p). We go into the factors that drove PEW's performance in H1 2014 overleaf.

Restructuring to allow PEW to continue beyond 2015

The proposals being put to investors will effectively swap the existing ZDP issue for another identical one but the new zeros will be issued by a separate company that will be owned entirely by PEW. The rights and returns of ZDP holders will, for all intents and purposes, be unaffected by this but PEW will no longer face a wind up in 2015.

Post the vote, PEW will have an indefinite life but shareholders will be given the chance to vote on the continuation of the company at the AGM in 2020 and five yearly thereafter. The EGM to approve the proposals also includes a vote on renewing the Board's authority to issue stock, allowing PEW to expand.

www.premierfunds.co.uk

Domicile	United Kingdom
Inception Date	04/11/2003
Ordinary share Market Cap. £m	32.1
Ordinary Shares Outstanding	17,068,480
Avg Daily Volume (3 Mo)	17,242

NB: this note has been prepared for Premier Energy & Water Trust plc by Marten & Co and is for information purposes only. It is not intended to encourage the reader to deal in the security or securities mentioned in this report. Charts and data are sourced from Morningstar unless otherwise stated. Please read the important information at the back of this note.
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History of the fund

PEW started life in November 2003 as a rollover vehicle for Legg Mason Investors International Utilities Trust. In December 2009 shareholders voted to extend its life to 31 December 2015 – the day when its zeros mature. In December 2010 the fund expanded, issuing shares in connection with the reconstruction of another Premier fund, Premier Renewable Energy Fund Limited.

How the fund works

PEW is a split capital investment trust - this means that it has more than one type ("class") of share capital.

In PEW's case there are two classes of shares; zero dividend preference shares and ordinary shares.

Zero dividend preference shares, often abbreviated to ZDPs, are not entitled to receive dividends. They are a type of share that are redeemed at a fixed price at some defined point in the future. Their entitlement to the assets of the company rises in a straight line between their entitlement on issue and their redemption value. They will get paid out before the ordinary shares if the company is wound up.

Ordinary shares are the most simple form of share capital. In a split capital trust they are usually entitled to all the assets that are left over once the other classes of share capital have been repaid. Similarly they are also usually entitled to what is left of all the income generated by the split capital trust after any income due to other share classes has been deducted.

The Zeros

For PEW, there are 21,180,373 ZDPs in issue. These are entitled to a capital sum that accrues at the rate of 6.53% per annum and results in a final payment of 221.78p per share (£47m in total) on 31 December 2015, leaving considerable headroom for the ZDPs to be redeemed in full even if the assets fall from the current level.

At the date we wrote this report, the ZDPs were entitled to 203.0p per share. The ZDPs were trading at 211.75p per share which means they were trading at a 4.3% premium to their asset value. The return you would get by buying the ZDPs at this price and holding them until their redemption date at the end of December 2015 is 3.4% per year (the "gross redemption yield"). The final repayment of the zeros requires £47m and the company currently has total assets of £76m to cover this. So the ZDP cover is 1.6x.

Currently the ZDP shareholders have the right to receive notice of, to attend and to vote at all general meetings of the Company. The ZDP Shares are qualifying investments for Individual Savings Accounts ("ISAs") only if they were purchased earlier than 5 years before their final redemption date of 31 December 2015.

The Ordinary shares

PEW has 17,068,480 ordinary shares in issue. Because the ZDPs have a fixed entitlement at 31 December 2015, this has the effect of providing gearing for the ordinary shares. As such, underlying movements, up or down, in the value of the underlying portfolio are magnified as changes in the NAV of the ordinary shares. The hurdle rate, 3.7% at the end of July 2014, is the rate by which the portfolio must increase in value each year in order to offset the increasing value of the ZDPs and maintain the NAV of the ordinary shares at a constant level. This means that buying ordinary shares in a split capital trust is usually riskier than buying ordinary shares in a plain vanilla company that just has ordinary shares and hasn't borrowed money.

The ordinary shares are entitled to all of the Company's net income available for distribution by way of dividends, as the ZDPs have no entitlement to any of the income. The dividend income on the ordinary shares is therefore higher than it would otherwise be without the presence of the ZDPs (this is a major benefit of the split capital structure for ordinary shareholders).

On a winding-up, the ordinary shareholders will be due any undistributed revenue reserves and any surplus assets of the Company after the ZDPs have been paid in full. The ordinary shareholders have the right to receive notice of, to attend and to vote at all general meetings of the Company. The ordinary shares are qualifying investments for ISAs.

This table shows what happens to the ordinary share asset value if the assets fall or rise by 5%

NAV Today	194p	
5% growth in assets	216p	11.5%
5% fall in assets	172p	-11.5%

The Restructuring Proposals - extending the life of the fund

Many large shareholders have aksed that the fund keep going beyond 2015

The aim of the proposals is to remove the need to wind up the Trust in 2015 at the same time as the current zero dividend preference shares become due for repayment. At present, under an arrangement put in place when the Trust's life was last extended, the Board is obliged to call a meeting at the end of 2015 and ask the shareholders to vote on a resolution that the company be wound up voluntarily. If the resolution was approved, the portfolio would be liquidated, the ZDP shareholders repaid and Ordinary shareholders would then receive the residual value of the company after the costs of the wind up.

Given the performance of the fund since James Smith took over the management of the portfolio in June 2012 (+42.2% at the gross assets level vs. a +20.9% return on the FTSE All World Utilities Index), it is unsurprising that many shareholders are keen to see the company continue. NB, if the proposals to restructure the company are rejected, the managers would have to start to reduce some of their longer-term investment positions well in advance of 2015.

ZDP liability shifted to a subsidiary - ZDP holders' rights barely affected

To avoid the costs and disruption of restructuring the company in the future, the proposal is to convert the Trust into one with an unlimited life. This can be achieved by shifting the liability to repay the zeros into a subsidiary (a new company controlled by PEW). This is a tactic employed by a number of other investment companies. This will enable the ZDPs to be repaid as a return of capital on their repayment date even if the Trust as a whole is not wound up. In the meantime, the ZDPs will continue to provide gearing to the Trust just as they would have done before.

ZDP shareholders are therefore being asked to swap their existing ZDPs for new ZDPs issued by the subsidiary with otherwise identical characteristics with one exception, ZDP shareholders will no longer be entitled to vote at Annual General Meetings of the Company. In exchange for this they will be given "class rights" - binding rules that protect their interests.

Five -yearly continuation votes

By approving the scheme, Ordinary shareholders will be effectively indicating that they are keen for the company to continue. However, they will be given another chance to vote on the continuation of the company in 2020 and every five years thereafter.

Possibe new zero issue post 2015

The Board will consider the options for refinancing the zeros as their repayment date approaches. A likely solution is an issue of a replacement ZDP. Under this scenario, existing ZDP shareholders could have preferential rights to roll over into the new issue without triggering a Capital Gains Tax liability.

Fund has a chance to expand

If the restructuring proposals are passed, the Board hopes that the fund will be able to expand by issuing new shares - both Ordinary shares and Zero Dividend Preference shares. If they issue ZDPs without issuing a matching number of Ordinary shares at the same time, they have said the issue is subject to a "cover test". (ZDP cover is a measure of how likely it is that the ZDPs will be repaid in full, based on what assets are available today and the final cost of repaying the zeros. Please search for "ZDP Cover" on our website for an explanation of this term or any other phrase where you are unsure of the meaning). The Board has said that the cover test will be tightened by excluding the Trust's revenue reserve. ZDPs will only be issued when their cover is at least 1.5x or the cover would not fall as a result of the issue. The Board is asking for shareholder approval to issue ZDP and Ordinary shares on a non-preemptive basis (i.e. existing shareholders do not have first right of refusal to the purchase of the new shares) but on terms that will not dilute the net asset value.

The protection outlined in the paragraph above is important - the presence of the zeros in PEW's capital structure allows the Ordinary shareholders to get a higher income and better performance in good markets (when the total assets are growing faster than the ZDP entitlement). If the company issues proportionately more Ordinary shares than zeros this benefit is diluted. However if the company issues proportionately more zeros than Ordinary shares, the gearing effect on the Ordinary shares is multiplied and they become riskier.

No impact on current dividend policy

PEW has substantial revenue reserves. Last year the Board adopted a policy of running these down by paying additional dividends of 0.75p per quarter until the end of 2015. After that the dividend policy will clearly be influenced by both the performance and make up of PEW's portfolio and the nature and extent of any gearing in PEW's structure.

We asked the fund managers why someone would invest in PEW

1) To gain access to a range of stocks that are not available to UK investors; it is hard for the average investor to make an informed decision about a Chinese renewable energy company or an Indian power producer.

Portfolio diversity

2) You get a "normal" (i.e. above-average) utility type yield by buying the ordinary shares but with exposure to stocks with higher potential for earnings growth than the average utility company.

Utility Yield + Growth

3) For quite a long time, buying the average utility company allowed you to outperform stock market averages, say the managers. They think these days may have passed and now, if you want outperformance, it is going to be much more important to pick the right companies.

Stock-picking

4) While we must point out that past performance is no guide to the future, recent performance has been strong which might suggest that the new investment approach is working.

Recent performance

5) The mixture of stocks in PEW's portfolio and its structure allow for exposure to a number of low or zero yielding companies with the potential for higher capital growth than a basket of mature utility companies.

Structure

How they manage the portfolio

PEW's portfolio is composed of stocks drawn from the global energy, water and waste sectors and actively seeks to avoid commodity risks such as those associated with oil and gas production. The managers reckon their potential universe comprises about 300 companies ranging from the very large to those with a market capitalisation of a few tens of millions of pounds. The universe includes a mixture of regulated and competitive businesses.

Choosing from 300 companies

The portfolio is built on a stock by stock basis – selecting each stock on its own merits - but an evaluation of macroeconomic, political and industry-specific themes does much to shape it. For example, back in 2012 they were excited by the prospects for Chinese renewable energy companies; the Chinese government had made a commitment to greatly expand its renewable energy sector. They identified a number of companies they thought might benefit from this trend and selected a few of these for the portfolio - China Everbright International for example, a waste incineration and waste water treatment company.

Pick stocks but think about politics and economics

The managers split the universe between them and after some initial screening select about 100 stocks that they follow closely. They have built their own model that compares the earnings forecasts and ratings of all the stocks they follow. They have a time horizon of about three to five years. For some stocks they have constructed their own discounted cash flow models (these tend to be for companies at an earlier stage of life) otherwise they base the inputs to the system on forecasts drawn from research written by analysts they respect. Finally, before they buy a stock they complete a rigorous analysis of all the potential risks.

Sift the universe using their own model

The portfolio is relatively concentrated. Although there are a handful of stocks where they have "toe in the water" positions of less than 1%, most stocks go into the portfolio with an initial target weighting of 1.5%-3.0%, and may go above this if they have a particularly strong conviction about the company's prospects. Thereafter stocks get to be large positions by performing well. The Board have oversight of the portfolio and monitor its weightings. The maximum initial position size is 15% of the portfolio but, in practice, they believe 10% is about the maximum size they would let any position get to.

Focused portfolio

The managers believe the investment approach would suit a portfolio up to about £150m in size, which gives ample room to expand the company. The managers say the Investment trust structure helps them take longer term decisions and allows them to hold stocks that might be too illiquid for an open-ended fund. They do not use cash tactically – for one thing they are mindful of the drag effect of holding cash in a geared fund. If they thought the market was very overvalued they might seek to hedge it. They have hedged currency exposure in the past and would do so again if they had a strong view on the valuation of the currency. All the gearing is provided by the zeros – the trust has no bank borrowing.

Room to expand

Sales of stocks are triggered primarily because they appear fully valued. A secondary reason would be adverse change in fundamentals. Continuing with the example of China Everbright above, following its very strong share price perfromance during 2013, as a result of which the stock was for a time the trust's largest holding, its rating moved upwards to 25x, which, depsite 25% visible forward earnings growth, the managers felt was close to fully valued. They therefore started to reduce the holding during the second half of last year and have continued to do so in the early part of 2014.

Sell discipline

Asset allocation and risk considerations

Truly Global

With the freedom to invest anywhere in the world and unconstrained by any need to match weightings to a benchmark, PEW's portfolio is divided between emerging and developed markets but with a bias to the former. The fund holds companies with a wide range of market capitalisations.

Which is riskier - emerging or developed?

Risk comes in a lot of different forms. While some investors might believe that by upping the exposure to emerging markets and smaller companies would increase portfolio risk, the managers believe, in many instances, the contrary is true. Take power price risk as an example. In Europe, politics and sluggish demand are putting downward pressure on prices. By contrast in India there is a deficit of power and so this excess demand underpins prices. Regarding political risk; in China the government sets out long-term ambitions and plans accordingly. In the UK the commitment to renewables and on-shore wind seems to be evaporating in the face of local opposition to wind farms. Fuel price risk is another factor to be considered. In the UK there is worry over gas prices; with climate change policies discouraging coal fired power production and successive governments side-stepping decisions needed to replace the UK's nuclear power stations, the focus is on gas. Gas plants also supply much of continental Europe's power. Politicians have not overcome aversion to shale gas production and so the stand-off with Russia over Ukraine is worrying given the importance of Russian supplies to the European gas market.

In developed markets the managers generally prefer regulated businesses as this reduces the chance of political interference. They think, Scottish energy company, SSE, is attractive today because of its transmission and distribution businesses therefore (with respect to the supply business, the managers think most of the political noise is just that and threats of curbing power prices are not practical).

Relatively modest US exposure

The US is a sizeable part of the global utility index, but regulation, which takes place on a state by state basis, is more politically driven than elsewhere The sector is also well covered by US analysts so there is less opportunity for the managers to find investments that can create signigficant value for the fund.

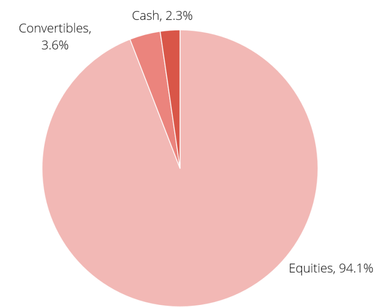
The managers say competitive businesses in emerging markets are often less risky than in developed markets because demand for power is increasing and market forces are generally therefore more benign. This is reflected in the composition of the portfolio.

Power generation in India

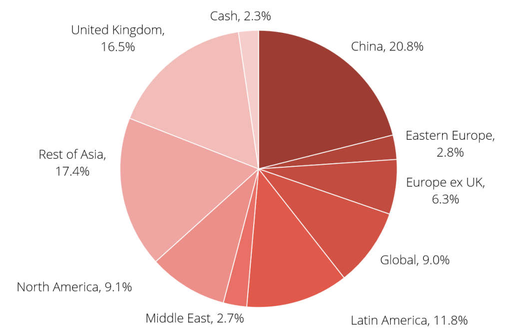
In India they are attracted to the electricity sector because the excess of demand over supply in that country leads to high utilisation and healthy margins. Furthermore, renewable energy, such as wind farms, can be built at low cost, meaning these assets can be operated profitably without subsidy. The UK listed small cap. coal fired power generator, OPG Power Ventures, now the largest stock in the portfolio, is the main source of exposure, although the fund has some smaller weightings in Indian renewable energy stocks.

The managers upped the weighting to Latin America to 10% last year as they thought valuations of companies in the region looked attractive. They are worried about Brazil where the government seems to be becoming more populist and weak economic growth is affecting demand.

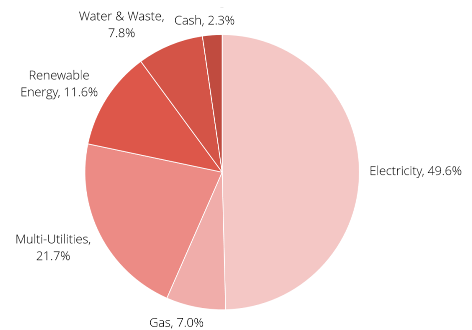
Portfolio split by asset type 31/07/14



Portfolio split by geography 31/07/14



Portfolio split by sector 31/07/14



Portfolio concentration 31/07/14

Top ten = 43.4%

OPG Power Ventures	9.5%
Renewable Energy Generation	6.3%
China Power Intl, Develop.	3.9%
Huaneng Power International	3.8%
Fortune Oil	3.6%
Ecofin Water & Power CULS	3.6%
GDF Suez	3.2%
SSE	3.2%
Tenaga Nasional Bhd	3.2%
Enersis	3.1%

OPG Power Ventures (OPG) 9.5%

OPG is an owner and operator of coal fired power stations in India. India, with a fast growing population and chronic underinvestment in its infrastructure, has large excess of demand for power and this keeps power prices high. The problem was exacerbated by the Indian government granting permissions to build power stations alongside undeveloped coal mines but then neglecting to grant the licences needed to develop the mines. By designing a smaller scale plant that can run on either imported or domestic coal, and ensuring all permits are in place prior to construction, OPG has developed smaller scale, but very profitable power stations in Southern India, near Chennai and is planning on both expanding its operations in Chennai and commissioning a 360MW plant in Gujarat (pictured) later this year.

Renewable Energy Generation (WIND) 6.3%

One of the biggest recent changes to the portfolio was the purchase of a significant addition to the fund's existing holding in Renewable Energy Generation (WIND).

WIND is a constructor, owner and operator of wind farms in England & Wales and also has a plant that burns used cooking oil. It owns 14 onshore wind farms with a generating capacity of 67MW, has a further five projects with planning permission that would generate 30MW and a development pipeline in excess of 100MW including a planned 12MW plant in Cumbria which WIND announced in June, is close to securing full planning permission. The managers believe that WIND is substantially undervalued because its share price is underpinned by exiting assets. The construction of new permitted sites and additional planning permissions received will add further incremental value. If the Conervative Party follow through with their proposal to limit further onshore wind development, WIND's existing business could be run for cash, providing an attractive income stream for investors.

China Power International Development 3.9%

Listed in Hong Kong, China Power International Development is a major Chinese power producer with exposure to renewables in the form of hydroelectric and wind power but mainly focused on coal fired stations - coal accounted for 12.3GW of 15.3GW of the company's installed capacity (after adjusting for minority interests) at the end of March 2014, 2GW of plants under construction and a further 3.9GW at plants at a preliminary development stage. Like Huaneng Power (another coal fired power producer), China Power International Development is a beneficiary of falling coal prices in China. Year to date, its shares have risen by 17% in Hong Kong dollar terms.

Other notable holdings

PEW has a holding in a competing fund, Ecofin (ECWO), through Ecofin's convertible loan stock. The managers think the yield on this is attractive – about 6%. The convertible is 5x covered by the assets of the fund and Ecofin's net asset value is more than 10% above the conversion price of the loan stock (173p). Ecofin's ordinary shares do trade at a wide discount, nevertheless there is a chance that the convertible might have some equity value.

Other holdings worth a mention include Fortune Oil, which holds a valuable stake in China Gas Holdings, Huaneng Power International, a Chinese coal fired power generator which, like China Power International Development is benefiting from falling coal prices in China; and SSE and National Grid, which together make up a significant part of the Trust's regulated utility exposure in the UK.

Premier Energy & Water : PEW

13/08/2014 QUOTEDDATA

Performance

Ordinary share NAV and benchmark total return to end July 2014

Time Period: 01/06/2012 to 31/07/2014

	1 month	3 months	6 months	1 year	2 years	3 years	4 years	5 years	10 years
Premier Energy and Water	-3.7	6.8	22.2	21.6	90.6	51.8	43.7	60.7	191.1
FTSE AW Utilities	-2.8	1.1	9.0	2.9	17.0	17.1	20.6	32.9	144.6

Ordinary share NAV TR monthly performance relative to FTSE AW Utilities

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	-0.5	12.3	0.6	-5.9	9.2	-2.2	-0.9						
2013	9.9	9.0	5.7	3.7	9.7	-3.1	1.7	-7.6	0.9	10.6	3.7	-0.4	53.6
2012	5.3	7.9	4.7	-7.8	-10.7	7.6	-5.0	0.1	-0.8	3.3	-6.1	1.9	-2.6
2011	-2.1	-3.5	5.9	-2.0	-1.4	-3.6	-6.3	-8.1	-10.7	3.9	-3.5	-2.2	-29.2
2010	-2.5	2.2	11.3	-2.3	-5.8	-6.3	2.7	-2.1	3.2	0.3	-0.7	5.2	2.8
2009	-5.1	-1.4	4.7	5.2	3.8	0.5	1.4	-0.6	3.5	-1.3	2.3	0.8	13.0

Commentary on performance

While investors took profits on highly rated "growth" sectors such as Technology and Biotechnology in H1 2014, the FTSE All World Utilities Index delivered a return well ahead of the FTSE All World Index. The manager attributes this to a realisation by investors that interest rates will stay lower for longer - increasing the attraction of reliable yield plays in the utilities sector; the use of the sector as a safe haven in a time of political unrest; and a rebound after prolonged underperformance by the sector had left it looking attractively valued. The managers say the best place to be was "safe haven" developed markets with low interest rate expectations and this was true in the US and Europe. In the UK worries about the possible impact on the utilities sector of the 2015 General Election tempered enthusiasm but utilities still outperformed the broader market.

OPG Power Ventures, PEW's largest holding, was also one of its best performing investments in H1 2014. Its shares rose by 75% as the company reported excellent results and in anticipation of growth to come (480MW of new capacity is due to come on stream before April 2015). Fortune Oil's share price rose sharply in during February and March and gained almost 30% over H1 2014. The manager points out that Fortune's associate company, China Gas Holdings, rose by over 41% during the period. As China Gas accounts for much of Fortune's value, Fortune finished the period at a wider valuation discount than it started.

We mentioned the benefits of falling coal prices on China Power International on page 6. The same holds true for Hauneng Power, its shares rose almost 25% in the first half. In the UK, hanging onto SSE and selling Centrica proved to be the right decision for the manager. The Latin American holdings, notably Enersis, did well despite emerging markets being out of favour with investors.

In our note published early in June we also mentioned PEW's holding in Essar Energy bonds these were sold for a 60% profit in US dollar terms and, while PEW held them, generated a 7% yield on PEW's in-price.

Five year Return / Risk Analysis

Time Period: 01/08/2009 to 31/07/2014

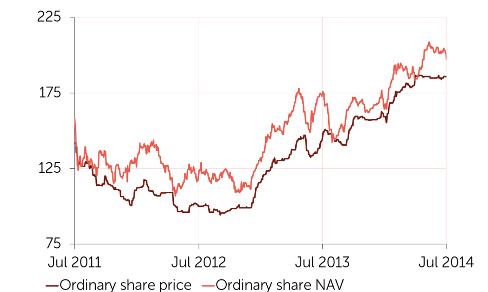
Annualised Return	9.95
Excess Return	4.10
Standard Deviation	26.30
Sharpe Ratio	0.48
Tracking Error	19.20
Beta	1.94

Ordinary share price vs. benchmark

Time Period: 01/08/2009 to 31/07/2014

Ordinary share price vs. NAV

Time Period: 01/08/2009 to 31/07/2014



Five year Bull and Bear returns

Time Period: 01/08/2009 to 31/07/2014

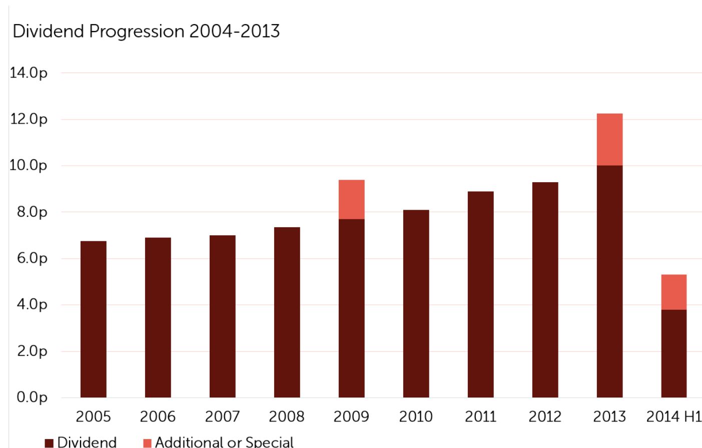
	Fund	B'mark
Best Month (%)	15.5	5.8
Worst Month (%)	-13.6	-7.4
Best Quarter (%)	42.2	13.3
Worst Quarter (%)	-29.5	-7.9
Up Months (%)	50.0	63.3
Down Months (%)	50.0	36.7
Longest positive move	6	6
Upward move (%)	66.5	12.5
Run started	01/12/2012	01/01/2014
Run finished	31/05/2013	30/06/2014
Longest negative move	6	3
Downward move (%)	-33.1	-7.9
Run started	01/04/2011	01/04/2010
Run finished	30/09/2011	30/06/2010

Commentary on performance (continued from previous page)

PEW made a 17.6% return on its investment in GDF Suez in H1 2014. GDF has been selling off non core assets and reducing its indebtedness. The managers think it has now shifted to a focus on organic growth. The process necessitated a reduction in its dividend but the share price seems to have taken that in its stride.

The utilities sector has given up some ground since the end of June but PEW's portfolio has proved to be more resilent (PEW's total assets registered a fall of 1.3% in July vs. a fall of 2.8% for the FTSE All World Utilities Index.

Dividends and income



PEW pays dividends in each calendar quarter; three smaller dividends and a larger final dividend payable in March. In H1 2014 PEW generated a revenue return of 6.9p per ordinary share (down on the 7.7p return generated in the equivalent period in 2013).

In part this reflects the strength of the pound in this period (which reduces the value of income earned overseas) but largely it reflects a change in the mix of the portfolio (NB more recent changes may have reversed this - see below).

The Board has declared dividends totalling 3.8p for the first half of the year and special dividends totalling 1.5p. The base dividend is 5.6% higher than the corresponding period last year.

The managers believe income generation in the portfolio should remain healthy this year. They have been reducing a number of Chinese renewable stocks that yield c1.5% and switching into Chinese thermal power producers which yield c6%. The Latin American stocks yield between 8% and 10% and OPG, the largest stock in the portfolio, has just announced a dividend policy, with the first dividend expected to come in 2015.

The Board decided to reduce PEW's dividend reserve ahead of the scheduled wind-up in 2015 but wanted to avoid paying it all out in one lump sum as that might have tax implications for some shareholders. In August 2013 they announced that they would instead pay a series of additional dividends to run down the balance gradually.

Competing Funds

PEW's closest competitor within the closed-end fund sector is probably Ecofin Water & Power Opportunities which has a lower exposure to emerging markets. Utilico Emerging Markets differs in that it has an emerging markets only investment policy but a wider remit encompassing transportation infrastructure. Renewable energy income funds such as Greencoat UK Wind and Bluefield Solar offer a yield comparable to PEW but lack the growth focus of PEW's portfolio. Likewise infrastructure funds such as John Laing Infrastructure and HICL. Specialist renewable energy funds, such as Impax Environmental Markets and BlackRock New Energy, have a higher exposure to technology and capital goods, increasing risks in our view, and lack PEW's yield.

	Discount (%)	Net Assets (£m)	Gross Assets (£m)	Yield (%)	Gearing (%)	3mth	1 year	3 years	5 years
Premier Energy & Water Ords	-0.89	32.6	75.5	7.0	98	2.5	23.6	18.6	9.1
Ecofin Water & Power Ords	-23.34	535.1	647.5	3.9	121	12.4	34.6	14.7	8.4
Utilico Emerging Markets	-8.27	435.4	447.3	3.1	104	4.2	6.2	8.4	12.6

The table above, which has some basic data on each fund and their net asset value performance over the time periods ending on 7 August 2014, shows that Premier Energy & Water's ordinary shares trade on a much tighter discount than the other two funds. PEW is the smallest of these funds but its ordinary shares pay a much higher yield than is available on the other two funds. Leadership of the peer group changes over time. The good performance generated by the fund since James Smith's arrival is demonstrated in PEW's leadership of the peer group over three years. PEW's relative performance over shorter time periods has been affected by the recent sell-off in markets. Ecofin's by contrast has been boosted by the near doubling in recent weeks of the share price of its largest investment, Lonestar Resources (a Texan oil & gas play).

Investment Objective and Strategy

The Premier Energy and Water Trust ("PEW") aims to achieve a high level of income and realise long-term growth in the capital value of its portfolio. It invests principally in the equity and equity related securities of companies operating in the energy and water sectors as well as other infrastructure Investments.

Where can it invest? Anywhere in the world - there are no restrictions on the proportion of the portfolio of the Company that can be invested in any one geographical area

What can it hold? Equity and equity-related securities but no investment in physical commodities. No more than 15% of the portfolio should be invested in a single security (at the time of acquisition). Up to 20% is permitted in other collective investment vehicles and, within that limit, up to 15% of the portfolio in other investment companies provided that they themselves invest in utilities or infrastructure. Not more than 10% of gross assets should be invested in funds unles those funds' investment policies say they will not invest more than 15% of their assets in other investment companies. Up to 15% in unquoted securities is allowed.

What risk controls are in place? No more than 20% exposure to the creditworthiness or solvency of any one counterparty and no cross-finance between the businesses forming part of its investment portfolio including provision of undertakings or security for borrowings by such businesses for the benefit of another. PEW will not have treasury functions in common between the Company and an investee company. PEW will not conduct any significant trading activity.

In addition to the 15% restriction on investment in a single company, the Board seeks to achieve a spread of risk in the portfolio through monitoring the country and sector weightings of the portfolio, imposing a minimum of twenty stocks in the portfolio.

The Company is geared through zero dividend preference shares but does not use other gearing on a long-term basis.

The Managers:

Premier Fund Managers Ltd ("PFM Ltd"), is a subsidiary of Premier Asset Management Ltd ("PAM Ltd"). PAM Ltd had approximately £2.8bn of funds under management at 31 May 2014. PFM Ltd is authorised and regulated by the Financial Conduct Authority. The Company's portfolio is managed by James Smith and Claire Long. In addition to PEW, the managers also run a smaller open-ended fund, the Premier Global Power & Water Fund, which has more of an emphasis on developed market mature utility companies but with considerable commonality of holdings.

James Smith

James joined Premier in June 2012, after spending 14 years at Utilico, specialising in the global utilities, transportation infrastructure, and renewable energy sectors. During this time he gained extensive experience in both developed and emerging markets. He has previously been a director at Renewable Energy Holdings plc, and Indian Energy Limited. James is a Chartered Accountant and Barrister.

Claire Long

Claire joined Premier in December 2008. Previously she ran a UK smaller companies fund at Rothschild Asset Management after spending four years at Foreign and Colonial where she covered a range of markets, including the UK and Japan. She is an Associate of the CFA UK.

Management fees

The base fee is 1.0% per annum of the gross assets (i.e. including the assets attributable to the ZDPs), charged 40% to revenue and 60% to capital. In effect the Ordinary shareholders bear all of this fee - it acts to increase the target return the portfolio has to achieve before the Ordinary shareholders make money. This does have the effect of inflating PEW's ongoing charges ratio.

There is also potentially a performance fee, which, if earned, is allocated between capital and revenue based on the outperformance attributable to the capital and revenue respectively. The performance fee calculation relates to each accounting year of the Company commencing with the period ended 31 December 2004 and is triggered if (i) the dividends paid or proposed to be paid on each Ordinary Share in respect of that accounting year (on an annualised basis in respect of the first accounting period) equals at least 6.75p and (ii) the gross assets at the end of the year exceed the highest level of gross assets at the end of any previous accounting year or (if higher) the initial gross assets adjusted for share buybacks or share issuance by more than 7.5%, subject to appropriate adjustments for changes in capital and other conditions. In that event, the performance fee will be equal to 15% of the excess. In practice the low returns generated by the old investment approach put the performance fee out of reach in earlier periods and no performance fee was payable in respect of the year ended 31 December 2013. Now though, the improvement in performance is putting the fee in sight again. This provides another incentive for the managers to keep the good run of performance going.

The Board

Geoffrey Burns (Chairman)

non-executive, owns 80,411 shares

He has worked in the investment fund industry for over thirty years. From 1997 to 2000 he was a director and head of investment trusts at Murray Johnstone Ltd. Mr Burns is an adviser to a number of government and multilateral agencies who make investments in private equity funds in emerging markets. Mr Burns is Chairman of City Natural Resources High Yield Trust PLC. Mr Burns was appointed as a non-executive director of the Company on 12 September 2003.

Ian Graham (Chairman of Audit Committee)

non-executive, owns 22,032 shares

He has over twenty years' experience as an investment analyst, more than half of which were spent covering utilities, having worked at Scrimgeour Kemp-Gee, Simon & Coates, Nat West Securities and Merrill Lynch until 2001. Mr Graham was appointed as a non-executive director of the Company on 12 September 2003 and was appointed the Chairman of the Audit Committee on 1 August 2012.

Michael Wigley

non-executive, owns 125,150 shares

He is a director of The Conygar Investment Company plc. He was formerly a director of Matheson Investment Ltd and a non-executive director of Development Securities PLC. He was deputy chairman of Legg Mason Investors International Utilities Investment Trust, the predecessor company. Mr Wigley was appointed as a non-executive director of the Company on 12 September 2003.

Charles Wilkinson

non-executive, owns 31,223 shares

He is a solicitor and a resident of Guernsey. Until March 2005 he was a partner of Lawrence Graham LLP specialising in investment trusts and funds. He is a non-executive director of Landore Resources Ltd, which is quoted on the AIM Market of the London Stock Exchange and of the three Doric Nimrod Air funds listed on the Specialist Funds Market of the London Stock Exchange. Mr Wilkinson was appointed as a non-executive director of the Company on 23 February 2011.

During the year ended 31 December 2013 the Chairman received a fee of £26,000 per annum, the Chairman of the Audit Committee received a fee of £20,000 per annum and other Directors £18,000 per annum. The total directors' fees are capped at £150,000

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