MARTEN & CO

Update | Investment companies

4 February 2016

Premier Energy & Water Trust

It's a £24m rollover!

On 31 December 2015, Premier Energy & Water Trust (PEW) issued £24.1m of new Zero Dividend Preference shares (ZDPs) to partially refinance its 2015 ZDP issue that matured that day. Following this transaction, PEW's ordinary shares are significantly less geared and it has a lower cost of borrowing. The reduction in gearing results in lower revenue for the ordinary shares and the trust's additional dividends are also coming to an end. However, the managers anticipate income generation from the portfolio to be strong and the board expects to pay at least an 8p dividend per ordinary share for 2016.

Geared global utilities exposure

PEW invests in equity and equity related securities of companies operating in the utilities and infrastructure sectors with the twin objectives of achieving high income and long term capital growth from its portfolio. Since the change of management and stock selection in June 2012, the portfolio has greater emphasis on emerging markets, smaller companies and special situations and lower weightings to traditional, developed market, utility companies.

Year Ended	Ord share price TR (%)	Ord share NAV TR (%)	FTSE All-World Utilities TR. (%)	FTSE All-World TR. (%)	FTSE All-Share TR. (%)
31/12/11	(30.7)	(32.8)	(3.6)	(6.6)	(3.5)
31/12/12	3.7	(4.1)	(1.6)	12.0	12.3
31/12/13	71.8	62.9	9.3	21.0	20.8
31/12/14	31.6	25.8	20.6	11.3	1.2
31/12/15	(26.5)	(19.2)	(2.5)	4.0	1.0

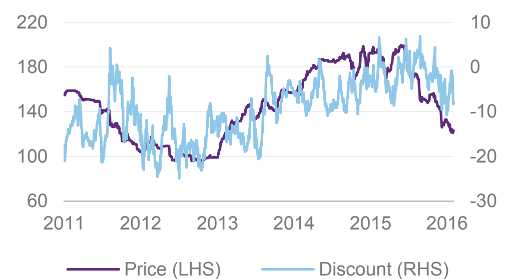
Source: Morningstar and Marten & Co. Note: PEW does not have a benchmark but, for comparison purposes, we have used the FTSE All-World Utilities Index throughout this report. PEW's financial year end is 31 December.

AIC Sector	Split Capital
Ticker (ords/ZDPs)	PEW / PEZ
Base Currency	GBP
Price (ords)	122.875
NAV (ords)	133.44
Prem./(Disc.) (ords)	(7.9%)
Yield (ords)*	6.5%

*Note: Yield is calculated assuming a minimum 8p per ordinary share (see page 3).

Share price & discount (ords)

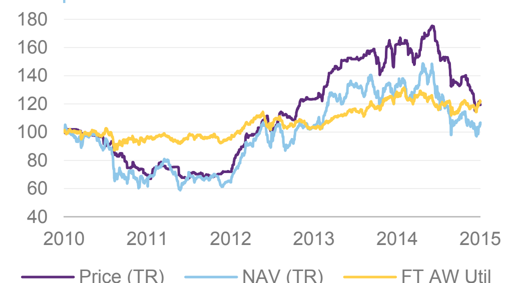
Time period 31/12/2010 to 01/02/2016



Source: Morningstar and Marten & Co.

Performance over 5 yrs (ords)

Time period 31/12/2010 to 31/12/2015



Source: Morningstar and Marten & Co.

Domicile	United Kingdom
Inception Date	November 2003
Managers	J. Smith, C. Long
Market Cap (ords)	22.2m
Ord. shrs outstanding	18.1m
Trading Vol. (1yr avg)	24,774
Net Gearing	91.6%

NB: this marketing communication has been prepared for Premier Energy & Water Trust by Marten & Co (which is authorised and regulated by the Financial Conduct Authority) and is non-independent research as defined under the Financial Services Act 2000 (Financial Promotion) Order 2005. It is intended for use by investment professionals as defined in article 19.(5) of that Order. Marten & Co is not authorised to give advice to retail clients and, if you are not a professional investor, or in any other way are prohibited or restricted from receiving this information you should disregard it. Charts and data are sourced from Morningstar unless otherwise stated. Please read the important information at the back of this document.

Out with the old and in with the new (ZDPs)

New ZDP shares have a lower GRY 4.75% than previous ZDP shares (6.53%).

On 31 December 2015, PEWT Securities 2020 Limited, a wholly owned subsidiary of Premier Energy & Water, issued 24,073,337 new ZDP shares, at 100p, to partially refinance £49.8m of its previous "2015" ZDP shares that matured on that day (further details of the structure of the 2015 ZDPs can be found on page 14 of our July 2015 note). The balance of £25.7m was returned to the holders of the 2015 ZDP shares as cash. The new 2020 ZDP shares mature on 30 November 2020 with a final entitlement of 125.6519p per 2020 ZDP share. This is equivalent to a Gross Redemption Yield (GRY) of 4.75% per annum, which is noticeably less than 6.53% GRY of the 2015 ZDP shares it replaced. Readers interested in how the repayment was financed should see pages 6 and 7 of this note.

A difficult period for utilities and emerging markets contributed to a significant rise in PEW's gross gearing.

Since its launch in November 2003, PEW has always had a split capital structure that has comprised an ordinary share with a significant amount of gearing provided by a ZDP share. This continues to be the case. However, during 2015 (a year that saw both utilities and emerging markets come under pressure) the value of PEW's portfolio (prior to deducting expenses) provided a total return of -2.5%, which was in line with the FTSE All-World Utilities Index. This comprised a capital loss of 5.8% and revenue income of 3.3% (all at a gross asset level). After taking into account costs, the gross asset total return was a fall of 4.3%. For PEW's ordinary shareholders, the trust's significant gearing amplified this, along with some restructuring costs, and this led to the trust's ordinary share's NAV falling by 19.2% (in total return terms) during the year. As a consequence, prior to refinancing the 2015 ZDPs, the trust's gearing had increased significantly from 131.7% of NAV to 186.7% over 2015.

ZDP refinancing provided the opportunity to repay some borrowings and return gearing to a more comfortable level.

The board held the view that, whilst PEW investors expect to have a significant level of gearing in the capital structure, the level under the 2015 ZDP shares had, with the contraction in the value of PEW's gross asset during the course of 2015, become higher than would normally be expected. Reflecting this, the board took the decision to repay some of the borrowings and therefore reduce the debt provided by the ZDP shares. The aim was to bring the gearing down to a more comfortable level.

The refinancing has in fact seen PEW's borrowings fall by 51.6%, which has obviously had a marked effect on the gearing of the ordinary shares, as discussed above, but a further consequence of this is that PEW's gross assets have also seen a marked reduction (from £75.9m as at 30 November 2015 to £50.3m immediately following the 2015 ZDP share refinancing). It should be noted that, whilst the investment objective of the trust hasn't changed (*PEW aims to achieve a high level of income and provide long term capital growth from investing in a portfolio of companies operating in the utilities and infrastructure sectors* – see front page) the reduction in the size of the trust's borrowings and its gross assets, has a number of key implications for the fund going forward.

Lower ZDP financing cost

Reduction in GRY for the ZDP shares benefits shareholders total return.

As illustrated in Figure 6, (see page 9), the cost of financing the borrowings provided by PEW's 2015 ZDPs, which falls upon the holders of the ordinary shares, had a significant impact on the ordinary share class's returns during 2015. Going forward, PEW's ordinary shares will be incurring a lower GRY on their ZDP borrowings (4.75% as opposed to 6.53%).

No marginal benefit to the revenue account.

It should be noted that this expense is charged wholly to capital and so there will be no benefit to the revenue account of PEW's ordinary shares but the charges to capital will be less going forward, which is positive for the ordinary share's capital returns and therefore its total returns.

Reduced gearing – lower return volatility

All things being equal, reduced gearing should lead to lower volatility in NAV returns for ordinary share investors.

As explained above, the new capital structure has less gearing and so, all things being equal, PEW's ordinary shares should exhibit lower volatility in their NAV returns, for a given move in gross assets, than was seen under the old structure.

By way of an example, PEW's total NAV for its ordinary shares was £26.2m as at 31 December 2015. Borrowings under the 2015 ZDP shares totalled £48.9m (equivalent to gross gearing of 186.7%) and gross assets were £75.1m. Under this structure, a 10% rise in the value of gross assets (equivalent to £7.5m) would give rise to a 28.6% increase in the net asset value of PEW's ordinary shares (similarly a 10% fall in gross asset would give rise to a 28.6% fall in the value of the ordinary share's NAV).

Under the new structure, PEW's ordinary shares total net asset are still £26.2m (as at 31 December 2015) but its borrowings are £24.1m (equivalent to gross gearing of 92.0%) and its gross assets are £50.3m. A 10% rise in gross assets (equivalent to £5.0m) gives rise to a 19.1% increase in the NAV of its ordinary shares and vice versa a 10% fall leads to a 19.1% fall in the value of the ordinary share's NAV. This is still a significant quantum of gearing but clearly the level has been reduced.

Revenue generation and dividend paying capacity

The contraction in PEW's total assets, from the reduction in borrowings, reduces PEW's capacity to generate income for its ordinary shares.

Historically, PEW's ordinary shares have benefitted from the income generated using the significant finance provided by its ZDP shares (see page 11 of our July 2015 note for further discussion). Put another way, because PEW is able to generate income for its ordinary shares using the entire portfolio and because the ZDP shares by definition do not draw on the trust's income, all of the income generated across the portfolio falls through to the trust's ordinary shares. As such, a marked reduction in PEW's gross assets, as has occurred following the refinancing of the ZDPs (a fall of 33.7% based on PEW's net Assets as at 31 December 2015), is likely to have an impact on its ability to generate income for its ordinary shareholders.

PEW's additional dividend payments of 0.75p per ordinary share per quarter to end in March 2016.

PEW pays quarterly dividends on its ordinary shares (see page 11 of our July 2015 note for more details on the timing and structure of the payments). For the 2014 year, PEW paid a total dividend on its ordinary shares of 10.4p (structured as interim dividends of 1.9p per share with a final interim payment of 4.7p per share - a total of 10.4p for the year). However, since its second interim payment for the 2013 year, PEW has also been paying an additional dividend of 0.75p per ordinary share, per quarter (3.0p per year in total). Our July 2015 note explains the rationale behind these additional payments (see page 11 of that note) but PEW has said that it will pay the

last of these additional dividends with the final dividend payment for the 2015 year (to be paid in March 2016). Including both the ordinary and special dividends, PEW will have paid 12.7p per share for the year ended 31 December 2015.

The board expect to be able to pay at least 8p per ordinary share (a yield of 6.5% on the current ordinary share price).

Given the above, a reduction in PEW's total dividend for the year ending 31 December 2016 seems a logical conclusion. The bigger question has been the extent to which the dividend could be cut. However, the board say that they recognise that income is important to the trust's shareholders and that they expect to be able to pay, in the absence of unforeseen circumstances, a total dividend of at least 8p per PEW ordinary share. This is equivalent to a 6.5% yield on the current ordinary share price of 122.875p.

PEW's fourth quarterly dividend for 2015 has reduced primarily due to the loss of the Renewable Energy Generation dividend.

In terms of the fourth quarterly dividend for the 2015 year, PEW has just declared the base dividend at 4.0p per ordinary share, which is a reduction on the 4.7p fourth quarterly dividend for 2014. The directors have advised that this reduction is necessary because PEW did not receive a dividend in Q4 2015 from one of its investments, Renewable Energy Generation Limited. PEW had budgeted for a dividend from Renewable Energy Generation in December 2015, however, in October 2015, the company announced a sale of its principal assets, together with proposals to distribute the resulting capital to shareholders and to de-list its shares. This resulted in it not declaring its usual December dividend. PEW's board say that the loss of this dividend has reduced revenue return per ordinary share by 0.61p as compared to what would otherwise have been expected.

Ongoing charges

Reduction in gross assets has competing effects on PEW's ongoing charges. We estimate these at 4.7% at the net asset level (lower than the 3.7% level for the 2014 year).

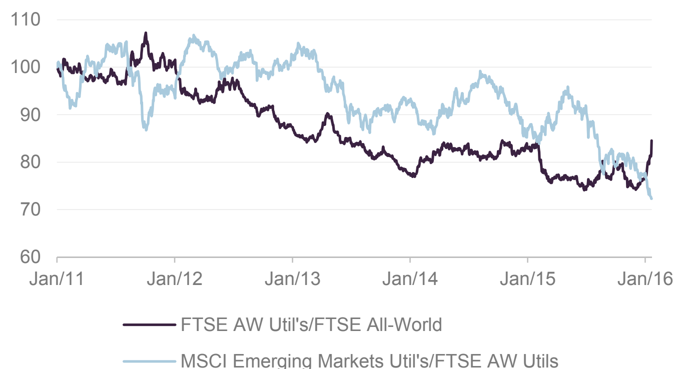
As discussed on page 9, the net assets of PEW's ordinary shares have contracted by 19.2% in total return terms during 2015. All things being equal, we would expect this to lead to a rise in ongoing charges as the trust's fixed costs are spread over a smaller pool of net assets. However, the restructuring of the ZDP has seen 1) the GRY of the ZDP shares reduced and 2) a reduction in PEW's gross assets on which its management fees are charged. Taking PEW's net assets as at 31 December and its gross assets at the same date (under the 2020 ZDP) we estimate PEW's ongoing charges at 1.9% on a gross asset basis and 3.6% on a net asset basis (assuming PEW incurs management fees of 1.0% of gross asset and taking PEW's estimate of its other costs to be approximately £450k for the 2016 year). The ongoing charges based purely on the ordinary share's NAV were 3.7% for the 2014 year (on our estimates). At the gross asset level, ongoing charges were 1.5% for the 2014 year.

Market outlook and valuations

Following a challenging year for utilities in 2015, global and emerging market forward P/E's look attractive relative to history.

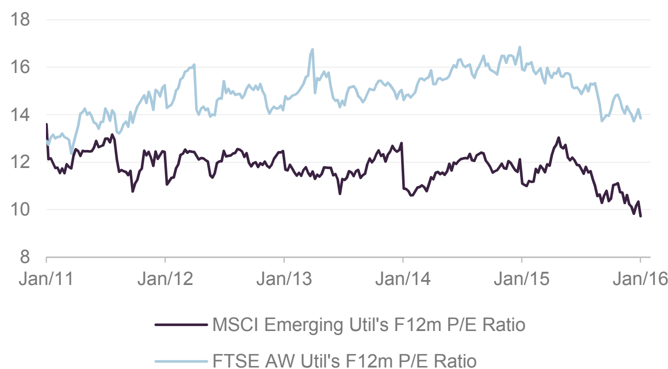
As illustrated in Figure 1, global utilities had a difficult first half of 2015 as the prospect of rising interest rates saw the sector underperform global markets (further discussion of the impact of rising interest rates on the performance of utilities can be found on pages 3 and 4 of our July 2015 note). The trend during the second half was much more mixed with marked periods of under and outperformance. Emerging market utilities outperformed global market utilities in the first part of 2015. However, reflecting concerns over emerging markets growth prospects, this trend quickly reversed and continued to the end of the year.

Figure 1: Global and emerging utilities Index perf.



Source: Bloomberg and Marten & Co.

Figure 2: Global & emerging utilities F12m P/E ratios



Source: Bloomberg and Marten & Co.

Following this performance, it is not surprising that utility valuations, for both global and emerging markets, continue to be relatively undemanding. As illustrated in Figure 2, emerging market forward P/E ratios continue to be cheaper than those of developed markets. Furthermore, emerging markets are now trading at forward P/E ratios that are close to five year lows and global utilities are trading at forward P/E's markedly below their five year averages. The FTSE All-World Utilities Index is currently trading at forward P/E of 13.7x (5 year average 14.9x) whilst the MSCI Emerging Utilities Index is trading on a forward P/E of 8.9x (5 year average 11.7x) (Source: Bloomberg). Clearly there are challenges ahead and there may be further market volatility as interest rates move along the path of normalisation. However, current valuations, particularly those in emerging markets, may represent an attractive entry point for the longer term investor, in our view (see page 3 and 4 of our July 2015 note for further discussion).

Managers' view

> The utilities sector is a series of local markets driven by its own regulation and demand-supply dynamics.

The managers acknowledge that the utility sector has had a difficult few years (global utilities have underperformed global markets in four of the last six-years) and, with the prospect of rising interest rates, they had expected 2015 to be challenging. Emerging markets have suffered in particular reflecting amongst other things concerns over growth, which may well continue, and there are ongoing concerns that rising interest rates will hold back both developed and emerging market utilities as well. However, the managers argue that this approach is overly simplistic. They say that it is better to consider the utilities sector as a series of local markets, driven by their own supply-demand balance and regulation that, more often than not, drive underlying profitability rather than global trends such as commodity prices and interest rates. Furthermore, the managers believe that the valuation impact on regulated utilities from rising interest rates is not clear cut. We discuss this relationship in more detail in our July 2015 note (see page 3) but, in summary, while the performance of utilities is likely to be impacted by near term interest rate movements, there is evidence to suggest that correlation over the medium to long term is weak. Regulated utility tariffs are periodically reset through tariff reviews. Most regulators will allow interest rate movements to be passed through to the end user, thereby offsetting the longer term impact of interest rate rises and allowing them to earn a real return reflective of market conditions.

Europe and Japan are difficult markets that have driven underperformance of global utilities during the last six-years.

The utilities landscape has changed markedly during the last six-years. Performance driven gains have seen the weightings to the US, UK and China increase whilst Europe, Japan and Latin America have fallen. The poor performance of Europe and Japan have driven much of the underperformance of the global utilities sector during the last six-years (collectively these accounted for 45% of the FTSE All-World Utilities Index at the end of 2009). In Europe, a substantial build out of renewables has eroded the profitability of the larger generators as thermal production has been displaced whilst in Japan the suspension of nuclear power has been replaced with higher cost fossil fuels. These are clearly difficult markets but elsewhere there are markets where utilities are performing well. US utilities are increasing earnings and dividends whilst UK utilities are, in the manger's view, at an early point in the regulatory cycle with high visibility and the potential to outperform regulatory settlements. Despite recent difficulties in the Chinese market, the managers believe their utilities should continue to see very high growth to address both energy supply problems and environmental issues.

Current valuations offer an attractive entry point for the longer term investor.

Reflecting the balance of these considerations, the managers believe that, at current market valuations, the current environment offers an attractive entry point for the longer term investor (see Figure 2 above). However, they are currently prioritising regulated companies, in particular natural monopoly companies where returns are disconnected from short term volume changes and commodity price movements, and this is reflected in the current UK overweight. Difficult environments, such as Europe and Japan are being avoided (the portfolio has a zero weighting to Japan and is also underweight continental Europe – including a zero weighting to Germany, which the manager's consider to have had the biggest problems from renewables overbuild). The trust is overweight China and has increased its allocation to India in areas the managers see as being exposed to long term structural growth. The trust is also focused on value stocks as the managers believe these offer the opportunity to outperform without earnings growth and should offer some downside protection in the event that markets de-rate further.

Asset allocation

The portfolio has seen an uplift in activity recently to fund the repayment of the £25.7m of maturing 2015 ZDP shares that were not refinanced. £3m came from the sale of Renewable Energy Generation ("WIND") after its portfolio was sold to a division of BlackRock ahead of a liquidation of the company. WIND suffered heavily following statements by the Department of Energy and Climate Change, in June 2015, which confirmed the newly elected Conservative government's intention to close the Renewables Obligation regime to onshore wind (the Conservatives had been elected with a commitment to end new subsidies for onshore wind and to change the law so that local people have the final say on onshore windfarm applications). PEW's managers consider that this made a fundamental change to the investment case and they believe that the stock would have continued to drift lower in the absence of the BlackRock bid. The position still lost 10% in value while they held.

£900k came from the sale of Greenko ordinary shares following a bid by GIC (PEW continues to hold some Greenko bonds). Greenko's ordinary shares had previously suffered heavily as the market began to realise that the convertible financing put in place to fund the build out of new hydro and wind plants could lead to material equity dilution. The shares began their initial slide following poor results and the announcement of a long-term incentive plan, which the market did not welcome. As discussed in our July 2015 note (see page 8), the managers took the opportunity to

add on weakness as they felt that the market had overreacted. In their view, whilst the dilution was significant the business had good assets and they expected to see earnings increase significantly. However, as the share price fell, a lack of a minimum dilution provision exacerbated led to a vicious circle of further dilution and contracting share price and so the managers were happy to exit the position.

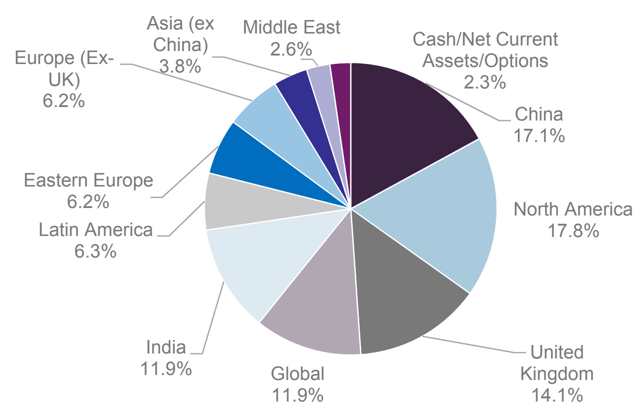
Other than these two divestitures, the managers say that the rest of the sales were made relatively evenly across the portfolio. OPG is a mild exception to this as, reflecting the recent share price falls and the value the managers see in the position (see below and overleaf), it was only trimmed slightly. As a consequence, OPG's weighting has increased post the reduction in the size of the portfolio following the 2015 ZDP refinancing and overall portfolio concentration has increased modestly. The top ten holdings accounted for 51.1% as at 13 January 2016, up from 47.2% as at 30 June 2015.

In terms of movements in PEW's geographic allocations, during the last six-months, China has been reduced in favour of India and the Global weighting has also increased. In terms of sectoral changes, electricity, multi-utilities and renewables have been reduced in favour of water and waste, and gas.

PEW's largest holding, OPG Power Ventures has suffered over growth concerns. The business is cash generative and managers expect a re-rating as earnings increase now that cap-ex requirements have reduced significantly.

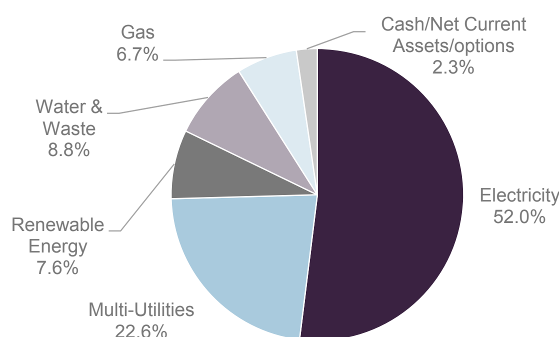
Looking at individual portfolio companies, OPG Power Ventures continues to be PEW's largest holding. Its share price fell, from 107p in July to 79p in November, as markets became concerned over its growth ambitions and how these might be financed now that its second facility in Gujarat is connected to the grid (this is expected to be running at full capacity in February). The managers are not expecting any new major development in the next few years and believe that cap-ex requirements are going to fall significantly. They think that the Bloomberg consensus for EBITDA, for the year to 31 March 2016, of £84m is conservative and that net debt will peak around the year end at £250m. Furthermore, with falling cap-ex requirements going forward, a proportion of the c£60m of free cash the company is expected to generate per annum can be used to paying down the debt, which is costing in the region of £25m per annum to service. In their view, this bodes well for long term profitability and they expect the stock will re-rate once the market can see earnings coming through. The managers consider that the stock is now very cheap. The company has previously announced that it intends to commence dividend payment in the current financial year and the manager's believe the company is well placed to achieve this.

Figure 3: Geographic allocation as at 31 January 2016



Source: Premier Energy & Water

Figure 4: Sectoral allocation as at 31 January 2016



Source: Premier Energy & Water

The managers remain positive on China Power International, the majority of whose generation capacity is coal fired, despite the announcement on 30 December, by China's National Development and Reform Commission that it was going to cut both the on-grid tariff for coal-fired power generation and the retail tariff paid by commercial and industrial customers. The change, which took effect on 1 January 2016, is equivalent to an average tariff reduction of 7.4% (Source: Moody's) and was higher than the managers had been expecting. However, the new tariff framework provides much clearer guidance on how tariffs will be adjusted for coal costs going forward (there is now a reference coal price for example) and the managers consider this effectively locks in gross margins at fairly attractive levels. They say that because only moves in excess of 10% are to be passed through, there are still gains to be seen from further coal price falls.

Figure 5: Top ten holdings as at 31 January 2016

Holding	Sector	Geography	Allocation 31 Jan 2016 (%)	Allocation 31 July 2015 (%)	Percentage point change
OPG Power Ventures	Electricity	India	11.1	9.7	1.4
SSE	Electricity	UK	6.2	3.1	3.1
	Electricity	China	5.8	4.8	1.0
Terraform Global	Renewable Energy	Global	5.4	0.0	5.4
Engie*	Multi-Utilities	Global	4.2	2.9	1.3
NextEra Energy	Electricity	North America	4.1	3.4	0.7
First Trust MLP & Energy Inc. Fund	Multi-Utilities	North America	4.1	3.4	0.7
Pennon Group	Water & Waste	United Kingdom	3.4	1.9	1.5
Beijing Enterprise Holdings	Gas	China	3.3	2.6	0.7
China Everbright International	Water & Waste	China	3.0	2.7	0.3

Source: Premier Energy & Water Trust, Morningstar and Marten & Co. *Note: Formerly GDF Suez.

Regarding the UK utilities, SSE included, the managers see the potential for them to outperform their regulatory settlements. First Trust MLP & Energy Income Fund invests in US oil and gas pipelines and other infrastructure. The holding was purchased at approximately an 11% discount to NAV after this sold off following the oil price collapse. However, the MLPs benefit from long term (typically 20 year contracts) that are inflation linked, unregulated and not price and volume sensitive.

NextEra Energy operates a mixture of regulated utilities in Florida (wind, solar, fossil and nuclear). PEW's managers believe it is one of the better managed US utility companies (it is one of the largest) and they expect it to continue grow its earnings steadily and provide yield growth to match.

An interesting new addition to PEW's portfolio has been bonds issued by TerraForm Global. The TerraForm companies own and operate renewable energy assets acquired primarily from SunEdison, which has recently fallen out of favour with investors (see below). TerraForm Global is focused primarily on solar, wind and hydro projects in emerging markets (Asia, Africa and Latin America) whilst TerraForm Power is focused on the US, Canada, the UK and Chile. Both funds where established by SunEdison but have suffered heavily in the wake of well publicised difficulties at SunEdison. SunEdison has failed to turn a profit in two and a half years. Its high debt levels have led to near term cash flow problems and there have been concerns over its ability to meet margin calls on its debt. Board members have resigned and the company's COO Francisco Perez Gundin left on 14 January 2016. The managers' assessment is that TerraForm Power also has significant levels of debt and the market has correctly retrenched. However, TerraForm Global is predominantly financed by equity and, with its bonds having fallen from 100.25 on 31 July 2015 to 77.75 on 25 January 2015, they now represent very good value.

Performance

Key drivers of the underperformance of PEW's share price, during 2015, were the level of gearing, cost of ZDP finance and discount widening.

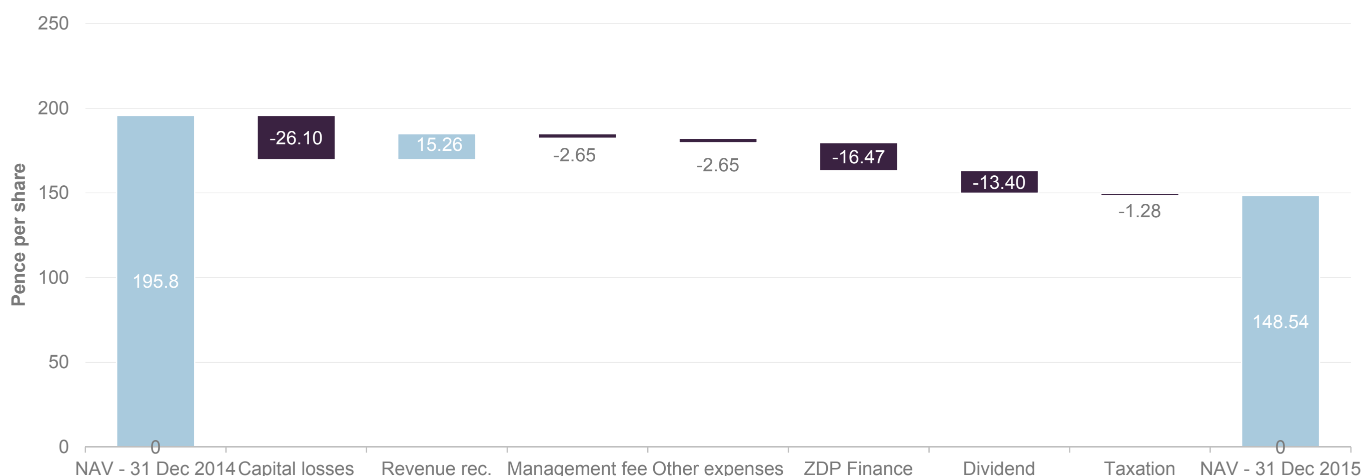
Please click here to visit QuotedData.com for a live comparison of PEW versus its split cap peer group.

As illustrated in Figures 7 and 8, 2015 was a challenging year for utilities, which underperformed global markets (as discussed on page 4, a key driver was the markets increasing concern over the prospect of rising interest rates and the impact this could have on utility companies that traditionally have a high level of debt in their capital structures). Emerging markets, where PEW has a substantial allocation, also suffered as concerns over their growth prospects, amongst other things, became heightened.

Against this backdrop, PEW's portfolio suffered a loss of 2.5% in total return terms (prior to deducting the various running costs), which comprised a capital loss of 5.8% and revenue income of 3.3% (all at a gross asset level). This is in line with the FTSE AW Utilities Index, which also lost 2.5%.

However, holders of PEW's ordinary shares saw the value of their holdings fall significantly more - by some 19.2% in NAV total return terms and 26.5% in share price total return terms. As illustrated in Figure 6 below, the key drivers for the NAV were (on our estimates) the impact of the gearing (now reduced) and the cost of the ZDP financing (now reduced). The additional underperformance of the share price was caused by a significant widening of the discount over the year. As illustrated in Figure 6, much of the underperformance of the NAV occurred during June, July and August (PEW's NAV outperformed the FTSE All-World Utilities Index over the first half of 2015) but the trend continued into the second half.

Figure 6: 2015 contributions to NAV performance – Marten & Co estimate



Source: Premier Energy & Water Trust, Morningstar and Marten & Co.

Figure 7: PEW NAV/FTSE AW Utilities Index* – rebased to 100 since 31 December 2015

Source: Morningstar and Marten & Co. Note: PEW does not have a benchmark but, for comparison purposes, we have used the FTSE All-World Utilities Index.

Figure 8: Total Asset TR vs NAV TR

Year Ended 31 Dec.	Total Asset Return (%)	NAV Total Return (%)	Share price Total return (%)	FTSE AW Utilities TR (%)*	FTSE All World TR (%)*	FTSE All – Share TR (%)
2011	(11.3)	(32.8)	(30.7)	(3.6)	(6.6)	(3.5)
2012	2.9	(4.1)	3.7	(1.6)	11.9	12.3
2013	24.5	62.9	71.8	9.3	20.8	20.8
2014	14.7	25.8	31.6	20.5	11.3	1.2
2015	(4.6)**	(19.2)	(26.5)	(2.5)	4.0	1.0

Source: Premier Energy & Water Trust, Morningstar and Marten & Co. * Note: All figures are in sterling equivalent terms. ** Note: Marten & Co estimate.

Figure 9: Total return performance to 31 December 2015 (Performance figures in excess of 1 year are annualised)

	1 month (%)	3 months (%)	6 months (%)	1 Year (%)	3 years (%)	5 Years (%)	Since 30/06/2012 (%)
NAV TR	4.1	(3.8)	(16.1)	(19.2)	18.3	1.3	12.1
Share price TR	(6.3)	(10.2)	(24.2)	(26.5)	18.4	3.6	17.7
FTSE AW Utilities*	3.4	3.9	5.3	(2.5)	8.7	4.0	6.4
FTSE All-World*	0.4	8.1	1.8	4.0	11.9	8.0	12.1
FTSE All-Share	(1.3)	4.0	(2.0)	1.0	7.3	6.0	8.7

Source: Premier Energy & Water Trust, Morningstar and Marten & Co. * Note: All figures are in sterling equivalent terms.

Key positive contributions from Western Europe, North America and China.

In terms of portfolio performance, positive contributions came from the trust's allocations to Western Europe, China and North America. Within Western Europe, not holding RWE, E.On and EDF Energy made a positive contribution to relative performance although the Italian Utilities were the main source of strength (Acea and Hera performed strongly following new laws to encourage consolidation within the sector), India was the largest detractor (OPG Power and Greenko both suffered heavily during the period) whilst losses South America and Eastern Europe were also detractors. Sterling strength was a significant headwind overall, although allocations to China and Western Europe saw an overall positive currency effect.

Discount

Broad trend of discount narrowing since strategy changed has reversed during the last six-months.

As illustrated in Figure 10, the broad trend of discount narrowing that has been in place since the change of strategy in June 2012, appears to have seen some reversal during the last six-months. The marked volatility, which is in part a feature of PEW's split capital structure and the particularly high level of gearing that was in place prior to the refinancing of the old ZDPs, has continued but it appears to have reduced more recently (this would be consistent with a lower level of gearing). It is still early days but the standard deviation of the discount has, so far during 2016, been half of its level during the second half of 2015.

Recent discount widening may be down to range of factors including lower dividends and worries about rising interest rates and emerging markets.

We believe that some investors have in recent years been attracted by the high dividend that PEW has been offering, both a combination of its special dividends and the significant gearing provided by the ZDP shares to the ordinary shares (see pages 3 and 4 of this note for further discussion), which helped narrow the discount on PEW's ordinary shares and, at times, move them to a premium rating. As discussed on page 3, these additional dividends are coming to an end and there has also been some uncertainty over revenue generation for the ordinary share (given the reduction in the level of gearing). These factors have, in our view, likely contributed to the recent discount widening. However, the rising gearing level ahead of the ZDP refinancing, difficult performance, negative sentiment on emerging markets and concerns over the impact of rising interest rates on utilities are also likely to have contributed.

Guidance towards a dividend of at least 8p (a 6.5% yield on the current share price).

However, PEW's board has now provided guidance that they expect to be able to pay a dividend of at least 8p per annum on the ordinary share (a yield of 6.5% on the current share price). We think that investors may find this attractive in the current environment, which should provide support to PEW's share price. There may also be demand from investors who were previously put off by the increasing level of gearing in the capital structure, now that this has been reduced. However, improving sentiment for emerging markets and utilities would also likely stimulate demand for PEW's shares and could potentially narrow the discount.

Figure 10: Premium/(Discount) over 5 years

Source: Morningstar and Marten & Co.

Previous research publications

Readers that would like more detail on PEW should see our annual review note of July 2015.

Figure 11: Marten & Co. previously published research on PEW

Title	Note type	Date
A step change in performance	Initiation	18 June 2014
Solid interims and plans for the future	Update	7 August 2014
Value in emerging markets	Update	2 February 2015
3 years later, in a new league!	Annual review	16 July 2015

Source: Marten & Co.

Additional information is available at the fund manager's website, www.premierfunds.co.uk

3 years later, in a new league! – 16 July 2015

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