MARTEN & CO

Initiation | Investment companies

23 May 2017

Ecofin Global Utilities and Infrastructure Trust

Structural growth, low volatility and high income

Ecofin Global Utilities and Infrastructure Trust (EGL) invests in utilities and other economic infrastructure equities and is looking to deliver a total return of 6-12% per annum to shareholders over time. These sectors are traditionally less volatile than global equities in general, and the manager expects strong demand for infrastructure spending globally and attractive returns for providers of capital. We think that EGL, with its focus on growth, capital preservation and a high level of income (EGL currently offers a yield of 5.2%), should be attractive to investors. The current discount of 12.9% offers comfort and an opportunity.

Developed markets utilities and other economic infrastructure exposure

EGL seeks to provide a high, secure dividend yield and to realise long-term growth, while taking care to preserve shareholders' capital, through investing principally in a portfolio of equity and equity-related securities of utility and infrastructure companies which are listed on recognised stock exchanges in European countries, the United States and other developed, OECD countries. It targets a dividend yield of at least 4% per annum on its net assets, paid quarterly, and can use gearing to achieve this. The portfolio is invested entirely in securities that pay a yield.

Period ended	Share price total return (%)	NAV total return (%)	MSCI World Utilities TR. (%)	MSCI World total return (%)	MSCI UK total return (%)
30/04/17*	11.0	(0.4)	2.2	11.4	8.0

Source: Morningstar, Marten & Co *Note performance is calculated from EGL's launch on 26 September 2016 to 30 April 2017.

Sector	Sector specialist: Utilities
Ticker	EGL LN
Base currency	GBP
Price	122.00p
NAV	140.04p
Premium/(discount)	(12.9%)
Yield*	5.2%

*Note: Yield assumes that EGL is able to at least maintain the quarterly dividend rate at 1.6p.

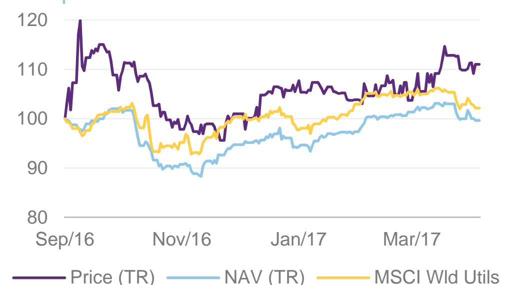
Share price and discount

Time period 26/09/2016 to 19/05/2017

Source: Morningstar, Marten & Co

Performance since launch

Time period 26/09/2016 to 30/04/2017



Source: Morningstar, Marten & Co

Domicile	United Kingdom
Inception date	26 September 2016
Manager	Jean-Hugues de Lamaze
Market cap	112.1m
Shares outstanding	91.9m
Daily vol. (average)	350.2k shares
Net gearing	2.3%*

* as at 30 April 2017, including net balances due from brokers

NB: this marketing communication has been prepared for Ecofin Global Utilities and Infrastructure 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.

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Fund profile

Developed markets utilities and infrastructure exposure with an income and capital preservation focus

Further information regarding EGL can be found at Ecofin Limited's website: www.ecofin.co.uk

Ecofin Global Utilities and Infrastructure Trust Plc is a UK investment trust, listed on the main market of the London Stock Exchange (LSE). The trust invests globally in the equity and equity related securities of companies operating in the utility and other economic infrastructure sectors. EGL is designed for investors who are looking for a high level of income, would like to see that income grow, wish to preserve their capital and have the prospect of some capital growth as well.

EGL has a strong focus on capital preservation.

Reflecting its capital preservation objective, EGL does not invest in start-ups, small businesses or illiquid securities, as these may involve significant technological or business risk. Instead, it invests in businesses in developed markets, which it says have 'defensive growth' characteristics: a beta less than the market average; dividend yield greater than the market average; forward looking EPS growth; and strong cashflow generation.

It also operates with a strict definition of utilities and infrastructure as follows:

- Electric and gas utilities and renewable operators and developers – companies engaged in the generation, transmission and distribution of electricity, gas, liquid fuels and renewable energy
- Transportation – companies that own and/or operate roads, railways, ports and airports
- Water and environment – companies operating in the water supply, wastewater, water treatment and environmental services industries.

EGL does not invest in telecommunications companies or companies that own or operate social infrastructure assets funded by the public sector (for example schools, hospitals or prisons).

Ecofin Limited

Ecofin Limited are specialists in utilities, infrastructure, alternative energy and environmental sectors. ESG research is incorporated into the investment process.

EGL's portfolio is managed by Ecofin Limited (Ecofin). Founded in 1992, Ecofin is an independent London-based asset management firm that specialises in investing in the utilities, infrastructure, alternative energy and environmental sectors with assets under management of circa $1 billion. Ecofin has a strong focus on sustainable investing and environmental, social and governance (ESG) research is incorporated into the investment process across all of Ecofin's strategies.

In addition to EGL and other external mandates, Ecofin also manages EF Realisation Limited (see next section); Ecofin Vista Long/Short Fund Limited (a Cayman Island domiciled open ended hedge fund investing in listed equity securities of global companies affected by an increasing drive towards energy efficiency, changes in energy policies and technological advances); and Ecofin Global Renewable Infrastructure Fund Limited (an open-ended long only Cayman Islands domiciled fund investing in the listed securities of global companies owning predominantly carbon-free electricity generating assets). Although related, all of these alternative vehicles offer markedly different strategies.

Experienced lead manager: Jean-Hugues de Lamaze

Jean-Hugues de Lamaze is senior portfolio manager for EGL and was named a partner of Ecofin in May 2016, having joined in 2008. Jean-Hugues was also the senior portfolio manager for EGL's predecessor vehicle, Ecofin Water & Power Opportunities (see below for details) for the six months prior to the September 2016 reconstruction. He has also led Ecofin's European team for nine years. Previously, Jean-Hugues co-founded UV Capital LLP and served as its CIO, oversaw the Goldman Sachs European Utilities research team and was a senior European analyst, and Head of French Research & Strategy, at Credit Suisse First Boston.

Jean-Hugues is a non-executive board member of Direct Energie S.A., a CFAF certified analyst and a member of the French Financial Analysts Society. He completed the INSEAD International Executive Programme, graduated from the Paris based business school Institut Supérieur de Gestion and earned his LLB in Business Law from Paris II-Assas University.

Strategy has room to grow

We believe EGL's strategy could be applied to a much larger fund. Expanding EGL's size should lower its ongoing charges ratio and improve liquidity in its shares.

EGL had a market capitalisation of £112.1m and total net assets of £128.6m (as at 19 May 2017). The manager believes that its strategy could easily be applied to a much larger fund. We think that its high income and 'defensive growth' characteristics should prove attractive to investors and allow EGL to attract new shareholders and grow its asset base over time. Expanding the size of the trust should have the dual benefits of lowering the ongoing charges ratio and improving liquidity in EGL's shares.

UK listed utilities sector has shrunk during the past decade

The number of names in the listed utilities sector has shrunk considerably over the past decade through take-over activity, which has reduced the opportunity set for investors looking for domestic UK utilities exposure. EGL's managers say that, as a consequence, utilities exposure is under represented in the portfolios of UK investors (both institutional and retail) and that those looking for exposure need to look further afield. This is in marked contrast to the US where private client portfolios traditionally include some meaningful utilities exposure. They find this surprising, given the usually high level of income and the stability of returns that utilities offer (utilities tend to offer stable returns as they engage in activities that are essential to the economy of which they are a part).

EGL is the only UK listed closed-end fund to offer developed markets utilities and other economic infrastructure exposure.

There are two utilities focused funds, listed on the LSE – EGL and Premier Energy and Water Trust (PEW) and they are distinctly different propositions (in our view they are potentially complementary allocations). PEW, which is also a corporate client of Marten & Co, is smaller than EGL (its ordinary shares have a market capitalisation of £29.9m as at 19 May 2017), has a high level of structural gearing that is provided by zero dividend preference shares (ZDPs) and has a high allocation to higher growth emerging markets (44% as at 31 March 2017). In this regard, EGL, with its focus on developed market utilities and other economic infrastructure, offers a unique proposition in the UK listed closed-end funds space.

Established as a rollover vehicle for Ecofin Water and Power Opportunities

EGL was established in September 2016 as one of two rollover vehicles for Ecofin Water and Power Opportunities (EWPO). Like EGL, EWPO was a London listed closed-end fund, managed by Ecofin, that aimed to provide a high secure dividend yield and long-term capital growth. However, EWPO operated with a wider investment remit than EGL. Like EGL, EWPO also used gearing with the aim of enhancing income, but EWPO's gearing was structural and was provided via ZDPs and convertible unsecured loan stock (CULS) while EGL's is all through its prime brokerage facility. EWPO invested in unquoted investments and had a greater capacity to invest in companies outside of the OECD (up to 20%).

The second rollover vehicle for EWPO is EF Realisation Limited. This is listed on the LSE under the ticker 'EFR' and was established to hold the illiquid and unquoted assets that were owned by EWPO, prior to its reconstruction, with the aim of conducting an orderly realisation by 26 September 2018. The realisation is to be effected in a manner that seeks to achieve a balance between returning cash to shareholders and maximising the value of its portfolio. Ecofin remains the manager of this fund.

At the time of EWPO's reconstruction, shareholders were offered a cash exit of up to 50% of EWPO's net assets less the cost of the reconstruction. More information on EWPO and EF Realisation can be found at the manager's website.

No formal benchmark

EGL does not have a formal benchmark and is not constructed with reference to any index.

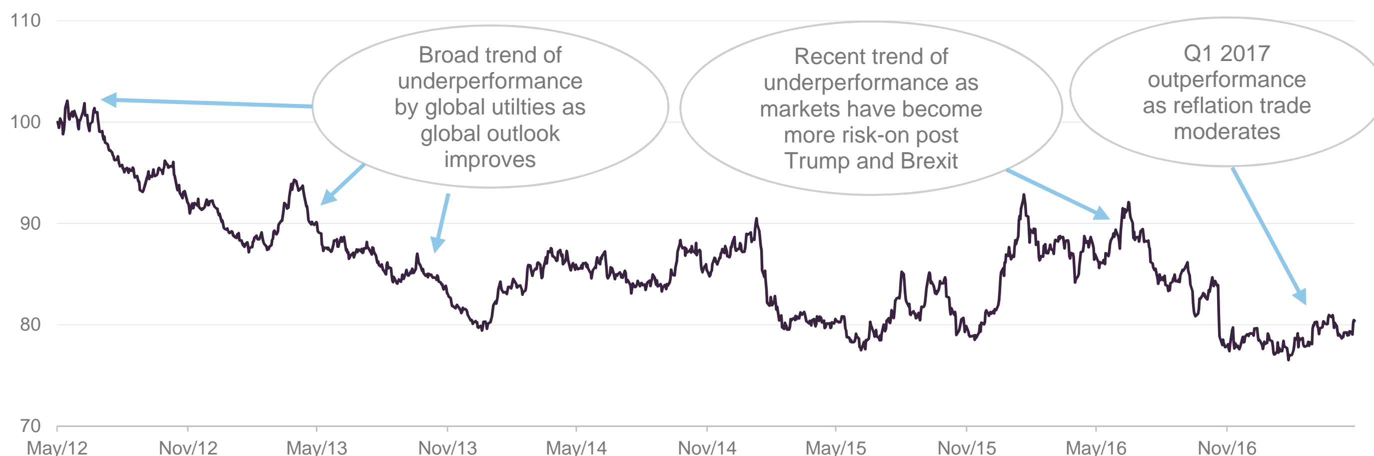
EGL does not have a formal benchmark and its portfolio is not constructed with reference to an index. However, for the purposes of comparison, EGL compares itself to the MSCI World Utilities Index, the MSCI World Index and the All-Share Index in its own literature. We are using a similar approach here, but are using the MSCI UK Index to represent the UK market. Of the three indices, we consider the MSCI World Utilities to be the most relevant although it should be noted that this index has a strong bias towards US companies (59.1% as at 31 March 2017).

Market outlook and valuations

Recent history and valuations

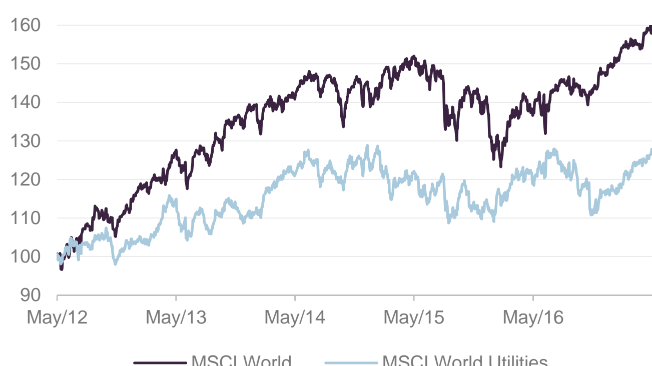
As illustrated in Figures 1 and 2, global utilities have broadly underperformed global equity markets during the last five years. Much of this underperformance came during 2012 and 2013, which, as illustrated in Figure 2, was a period that saw global equity markets performing strongly. Relative performance was much more stable during 2014, but 2015 saw some sharper moves as markets became concerned about the outlook for China and its then inflated stock market. Early 2016 saw a marked improvement in relative performance as concerns over China came to a head, the prospect of interest rate rises receded and other concerns, such as the UK's referendum on EU membership and the US election, came to the fore. An improving global outlook has since seen global equity markets move up another leg so that global equity market valuations, as illustrated in Figure 3, are close to five year highs. Global utility valuations, in comparison, are much less demanding.

Figure 1: MSCI World Utilities/MSCI World, rebased to 100, over five years



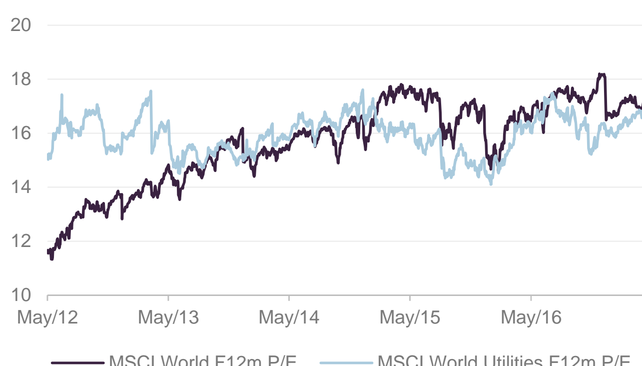
Source: Morningstar, Marten & Co.

Figure 2: MSCI World and MSCI World Utilities Index performance rebased to 100 over five years



Source: Bloomberg, Marten & Co.

Figure 3: MSCI World and MSCI World Utilities F12m P/E ratios over five years



Source: Bloomberg, Marten & Co.

Reflecting this performance, both global equity market valuations and global utility valuations are now towards the top end of their five-year ranges although, of the two, global utility valuations are less demanding relative to their history. For example, as illustrated in Figure 3, the MSCI World Utilities Index was trading at a 12-month forward P/E ratio of 17.0x at 19 May 2017, this being 6.9% above its five-year average of 15.9x and 3.4% below its five-year high (five-year range: 14.1x to 17.6x). This compares with the MSCI World Index, which was trading at a 12-month forward P/E ratio of 17.2x, this being 9.6% above its five-year average of 15.7x and 5.5% below its five-year high (five-year range: 11.3x to 18.2x). As also illustrated in Figure 3, global utility valuations appear to be inherently less volatile than broader global equity markets.

Global utilities and interest rate sensitivity

Rising interest rates are generally considered to be negative for equities, as an asset class, with utilities being at the more sensitive end of the spectrum. The conventional logic is that utilities tend to have stable cash flows and so can support higher levels of debt within their capital structures than many other equities. However, with higher levels of debt comes greater sensitivity of profits to changes in interest rates.

In reality, the relationship is actually more complicated. Taking a medium to longer term perspective, there is much evidence to suggest that the correlation between the performance of the utilities sector and interest rates is weak. A simplistic view might say higher interest rates tend to depress the earnings of indebted companies, such as many utilities, and also increase the discount rate used by the market to ascribe a value to their future earnings, both depressing valuations. However, utilities are largely regulated businesses whose pricing is 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 utilities to earn a real return reflective of market conditions. Similarly, in more inflationary environments, which are usually accompanied by rising interest rates, utilities are frequently permitted to increase their tariffs in nominal terms. Both effects will tend to have a positive impact on earnings and exert upward pressure on valuations. Other sectors may not benefit from such automatic adjustments. EGL's manager says that pure regulated utilities have some correlation to interest rates but globally, and especially in Europe, utilities tend to be diversified with a variety of business models and degrees of regulation.

Looking forward, there is the prospect of further market volatility as interest rates move along the path towards normalisation. However, utility valuations suggest that much is already factored into current prices and we think that this could be an attractive entry point for the longer term investor, particularly given the prospect of increasing volatility in equity markets.

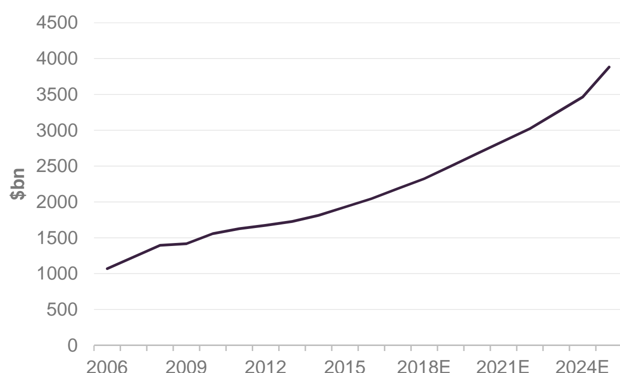
Manager's view

High demand for infrastructure spending globally

Strong demand for infrastructure spending globally will support higher returns for providers of capital.

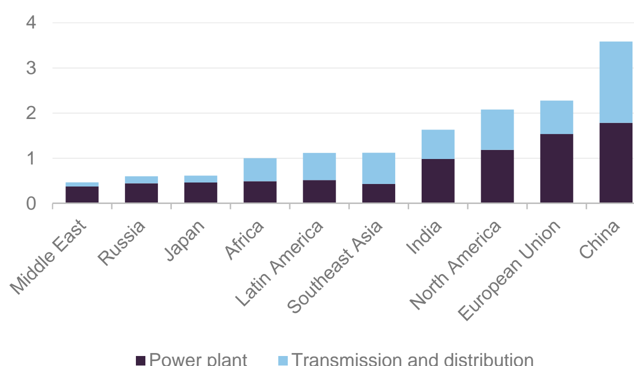
Global infrastructure spending, in both developed and emerging markets, is forecast to grow strongly over the next decade or more. The manager expects that this high demand will allow providers of capital for infrastructure investments to earn higher returns. We agree with this view.

Figure 4: Global annual infrastructure investment



Source: PWC, Outlook To 2025 Data Modeller

Figure 5: Global power generation, transmission and distribution, forecast cumulative investment requirements (2014-2035)



Source: IEA, World Energy Investment Outlook 2014

In the developed world, the average age of infrastructure assets has been rising steeply in recent years, aided by a period of austerity in the post financial crisis period. Increasingly there are calls to upgrade large swathes of transport, power, water and telecommunications infrastructure; to replace ageing infrastructure; to adapt it to the development of new technologies, notably renewable energy, and to support economic growth. Emerging markets, in comparison, already dedicate a large proportion of their GDP to developing infrastructure, but clearly further investment is required as they are still unable to meet the needs of large proportions of their populations. The manager points out that climate change and population growth also create their own challenges. Despite ever increasing efficiency, the world needs to produce more energy in a cleaner way. This is driving spending to alter the energy mix (a reduction in dirtier fossil fuels and nuclear power with an increase in renewables and shale gas).

Reflecting these developments, data from PWC's 'Outlook To 2025 Data Modeller' suggests a marked acceleration in annual investment in utilities and transportation (power, water, roads, rail, airports and ports) infrastructure during the next eight years (see Figure 4 above). Data from the International Energy Agency's World Energy Investment Outlook 2014 (See Figure 5) suggests that a significant portion of investment in power generation, transmission and distribution will occur in developed markets and China: North America and Europe combined account for just over 30% of global infrastructure spending between 2014 and 2035, while China should account for c 25%. The manager considers that this growth in capex is a very positive trend – capex is largely regulated and therefore guarantees a return on assets.

Investment process

EGL's portfolio is managed using an investment process that is driven primarily by bottom up stock selection, based on extensive fundamental research of potential investments, which is coupled with a top down overlay that informs the overall geographical and sector positioning. Figure 6 provides an illustration of the investment universe.

Figure 6: EGL's investment universe

	North America	Pan-Europe	Other
Number of companies (approximately)	150	100	25
Total market capitalisation	$1,063bn	$673bn	$211bn
Average yield (%)	3.5%	5.0%	3.1%

Source: Ecofin Limited

Well-resourced team

The portfolio manager, Jean-Hugues de Lamaze, is responsible for the construction of EGL's portfolio and individual stock selection decisions. He is supported by a team of six analysts who build and maintain valuation models, generate investment ideas and make recommendations to Jean-Hugues. Their research responsibilities are broken down along regional and sub-sector lines.

The portfolio manager is also supported by a trader and a risk management team of two. The trader contributes to the investment process by suggesting potential trading ideas and analysing the technical aspects of potential trading activity. The risk management team analyses and monitors various aspects of risk relating to EGL's

portfolio. This includes analysing correlations, monitoring position sizes and running portfolio simulations.

Idea generation

Ecofin Limited is a recognised specialist in the utilities and infrastructure space.

Ideas are generated through a number of sources, both quantitative and qualitative. Analysis of industry drivers and subsector trends direct the manager and analysts' research effort, informing where to look for potential opportunities.

Further to this, Ecofin Limited is a recognised specialist in the utilities and infrastructure space and, because of its strong reputation, management teams of investee or potential investee companies are keen to meet the Ecofin team. EGL's manager says that this supports idea generation and, through its superior access to management teams, Ecofin is able to undertake superior analysis and gain stronger insight than a non-specialist manager might be able to achieve.

Analysis

Ecofin Limited does not rely on sell-side analysts' estimates and, instead, conducts its own in house research and builds its own proprietary models. This allows it to identify situations where it has a different view to that of the market and where there may be a potential opportunity. A wide range of valuation metrics are used to make assessments of the risk/reward characteristics of potential investments. The choice of metrics reflects the needs of the various sub-sectors. The managers use what they describe as a 'multi-angle valuation approach' to build confidence in their estimates. Figure 7 illustrates the key valuation metrics used in the main subsectors in which EGL invests.

Figure 7: Key valuation metrics by sector

Pure regulated utilities	Environment	Energy	Transportation	Renewable energy developers	EPC Contractor
RAB	Multiples	SOTP	SOTP	Multiples	Multiples
DCF	DCF	DCF	DCF	DCF	SOTP
		Multiples			

Source: Ecofin Limited

- Regulatory asset base (RAB) – Regulatory formula is used to derive future earnings. The manager assesses the premium/discount, to the RAB valuation, at which a company is trading.
- Discounted cash flow (DCF) is used in situations where a business generates visible and forecastable cash flow streams.
- Sum of the parts (SOTP) is used when a business has multiple divisions. It is used to measure hidden value and to assess the potential for value accretive disposals.
- Valuation multiples (Multiples) are used for more cyclical stocks. The manager looks to identify earnings and cash flow momentum and so focuses on forward looking metrics. The price-earnings ratio (P/E), cashflow per share and EV/EBITDA are all key.

Catalysts are key to investment decisions

Having identified a difference in its valuation of a stock versus the market, the manager then looks to identify suitable catalysts for the market to reshape its expectations about the stock. The manager says that is a key part of the investment process. The team may be able to identify a valuation anomaly, but this is of limited use if there is no

opportunity to monetise the differential. Ideas are challenged amongst the investment team to ensure they have high conviction.

Portfolio construction

EGL maintains a diversified portfolio of between 40 and 60 holdings. Position sizes will typically range between 1.25% and 5.0% and are determined by the manager's assessment of risk versus reward. A position could be outside these bounds where, for example, the manager is working to increase or reduce a holding or has a particularly strong view. However, the manager is disciplined in trimming holdings as they rise (although the formal limit is 15% of NAV, the manager says that 8% is his limit as he wants to avoid a situation where one position dominates the portfolio). The manager expects portfolio turnover per annum to be in the range of 40 to 80%.

EGL's manager is agnostic on the split between utilities and infrastructure.

When constructing the portfolio, no consideration is given to the split between utilities and infrastructure – the manager is looking for the best opportunities at any given time, but the manager likes to maintain a balance between regulated and unregulated exposures. The portfolio is constructed to have what the manager describes as 'defensive growth' characteristics. EGL's holdings currently have betas in the range of 0.5 (e.g. UK regulated utilities) to 1.2 (e.g. renewable energy companies) with an average of circa 0.7.

Analysis by the risk management team, discussed below, also influences portfolio construction.

Top-down overlay

Top down macroeconomic analysis informs the shape of EGL's portfolio in terms of geographic and sectoral positioning. Consideration is given to:

- Differing regulatory regimes and trends in legislation
- Government energy policies
- Demand growth
- Energy commodity prices
- Industry capex trends
- Credit market conditions and ease of access
- Interest rates.

Risk management

The risk team works closely with the portfolio manager to assist in investment decisions. It has automated in-house tools that provide real-time risk monitoring and details of exposures. The team monitors hard risk limits, guidelines and typical ranges, and uses a traffic light system to indicate which limits are coming under pressure. Where a position moves to 'orange' the risk management team will work with Jean-Hugues to move the position back to green. Key metrics for the traffic light system are portfolio beta, volatility, dividend yield and liquidity.

The risk team also analyses potential biases within the portfolio (geography, sector, market cap, momentum and valuations); exposures to key risk factors (e.g. correlations to energy, interest rates etc.); conducts scenario analysis; and stress tests the portfolio.

Investment restrictions

It is expected that EGL will primarily invest in the UK, Continental Europe, the US, Canada and other OECD countries. However, its articles of association state that EGL can invest up to 10% of its portfolio in non-OECD countries. The company is permitted to invest up to 10% of its assets in debt securities and a significant portion may be comprised of cash from time to time.

EGL is also permitted to invest up to 15% of its portfolio in other collective investment schemes, including UK investment companies, but it is not permitted to invest in vehicles that are also managed by its own investment manager. No single position can exceed 15% of the portfolio, at the time of investment, although the manager takes a more conservative approach, limiting investments to a maximum of 8% of NAV.

EGL does not invest in unquoted equities. Furthermore, it does not invest in unlisted securities save for certain bond or derivative instruments which are typically not listed.

EGL does not invest in telecommunications companies; companies which own or operate social infrastructure assets funded by the public sector (for example schools, hospitals or prisons); or early stage listed companies which involve significant technological or business risk.

Although not a formal requirement, all of EGL's holdings pay a yield (currently at least 2%). EGL's manager say that non-yielding companies do not typically meet their investment requirements.

EGL is permitted to use currency hedging instruments, but usually its portfolio is unhedged.

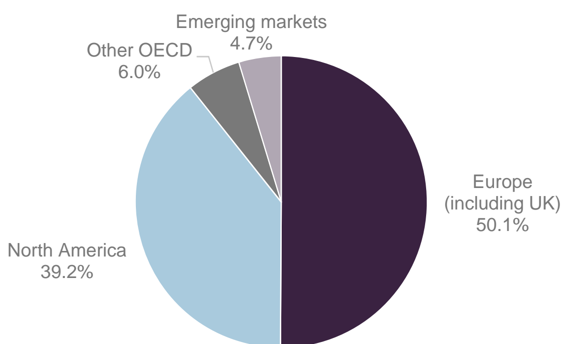
Focus on stocks with above-average dividend growth

All of EGL's holdings pay a yield. The manager is expecting dividend growth, for the portfolio, of 6.1% per annum over the next five years.

The manager invests in companies that he expects to exhibit strong dividend growth characteristics. Having modelled dividends across EGL's entire portfolio, the manager estimates a compound annual growth rate of 6.1% over the next five years. Two-year EPS growth is 6.0%, which is below the market average of 10.8%.

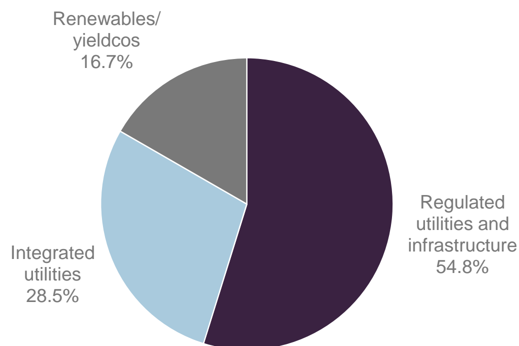
Asset allocation

Figure 8: Geographic allocation as at 31 March 2017



Source: Ecofin Global Utilities and Infrastructure Trust

Figure 9: Sub-sector allocation as at 31 March 2017



Source: Ecofin Global Utilities and Infrastructure Trust

EGL had 48 holdings as at 31 March 2017, all of which are paying a yield. The portfolio's beta is in the region of 0.7 and the portfolio's yield was 4.6% as at 31 March 2017. This is significantly above the market average of 2.8% but at the lower end of the usual range for Ecofin.

Circa 50% of EGL's portfolio is invested in Europe but the typical allocation is 45% Europe, 45% US with the rest of the world up to 10%.

As illustrated in Figure 8, EGL's largest geographical allocation is to Europe and this accounted for fractionally over half of the portfolio as at the end of March 2017. However, the manager says that the typical allocation for the portfolio is 45% Europe, 45% US and the rest of the world up to 10%. Regulated utility and infrastructure assets accounted for 54.8% of the portfolio, integrated utilities 28.5% and the balance is invested in renewables and yieldcos. Figure 10 shows the top holdings in the portfolio at the end of March 2017. Details of the top five companies, including some commentary on the manager's views on each, are provided below.

Figure 10: Top 10 holdings as at 31 March 2017

Holding	Sector	Geography	Allocation (%)
Suez	Water and waste management	France	4.9
Innogy	Renewable energy	Germany	4.7
SSE	Electricity	UK	4.3
Williams Companies	Energy infrastructure	US	3.7
Covanta	Waste to energy	US	3.4
APA Group	Gas	Australia	3.0
Algonquin Power and Utilities	Renewable energy and multi-utilities	Canada	3.0
Snam Rete Gas	Gas	Italy	2.9
American Electric Power	Electricity	US	2.9
Severn Trent	Water supply and waste water treatment	UK	2.8
Total			35.6

Source: Ecofin Global Utilities and Infrastructure Trust

We expect EGL to maintain positive net gearing reflecting its commitment to use leverage to enhance portfolio income.

As discussed on page 20, as at 30 April 2017, EGL had net gearing of 2.3%, up from 3.1% as at the end of March but down from 11.1% as at the end of February and 11.8% as at the end of January. The reduction in gearing during the last couple of months reflects a tactically more risk averse stance after strong gains in some holdings, approaching political events in Europe and NAV growth during the period. All of EGL's gearing is provided by its prime brokerage facility (see page 20 for details), through which EGL can borrow in major currencies for a low cost of Libor + 0.5%. As EGL's investment objective contains an explicit reference to using gearing to enhance the portfolio's income, we believe investors should expect EGL to be fully invested and have positive gearing unless there are exceptional circumstances. EGL's articles of association permit it to gear up to a maximum of 25%, but a more realistic upper limit is between 18-20% in the manager's view.

Suez (4.9%)

EGL's manager is positive on what he describes as Suez's leading position in the global water market. He says that this is enhanced by the recent acquisition of GE Water.

Suez (www.suez.com/en) is a French based utility company which operates in the water treatment and waste management businesses in over 70 countries. The company was formerly a division of Suez Group and was spun out as a stand-alone entity in 2008. Engie (formerly GDF Suez) is the largest shareholder with a 35% stake.

EGL's manager considers that Suez has a dominant market position, a well-defined growth strategy, and a commitment to financial discipline. He says that, while organic growth has been strong in international markets, it has been subdued in the Eurozone and the group would be a clear beneficiary from a pick-up in inflation and economic growth in Europe. He is positive on the recent acquisition of GE Water, which he says

expands the company's position in the US and in the Asia Pacific region, and increases its presence in industrial water, a high value-added segment of the water market.

Innogy (4.7%)

Innogy (www.innogy.com) was formed in 2016, by IPO, as a new company owning the renewables, retail, and grid and infrastructure businesses of its parent, the German energy company, RWE. RWE and its main competitor, E.ON, both restructured their operations last year reflecting the German government's programme to phase out nuclear power in Germany and radically increase the proportion of power generation from renewable sources. Innogy, now 75% owned by RWE, is a regulated utility which provides electricity and natural gas to consumers.

EGL's manager believes Innogy offers a sustainable 6% yield. He likes Innogy's defensive qualities and believes it could be an attractive acquisition target.

The company has a market capitalisation of €20bn and its shares, which have traded at a valuation discount to its peers since the IPO in October 2016, offer a prospective yield of c. 6%, well above long German bund yields and, in EGL's manager's view, sustainable. Jean-Hugues says that the shares have defensive qualities and there is potential for merger and acquisition activity in the sector; Innogy would be an attractive target in his view.

SSE (4.3%)

SSE (www.sse.com) is the second largest British energy utility and the UK's largest generator of electricity from renewable sources. SSE supplies electricity and gas to some 9.1 million homes, offices and businesses in the UK and Ireland, and has a 33% interest in Scotia Gas Networks, the UK's second largest gas distribution company, which supplies gas to 5.8 million customers in Scotland and the South of England. SSE's renewable energy production is from hydro-electric and wind sources.

EGL's manager believes that SSE could benefit from inflation in the UK.

EGL's manager says that SSE's commitment to real dividend growth remains at the core of its financial targets. The company's shares yield about 6% currently and Jean-Hugues believes that the reappearance of some inflation in the UK will be beneficial to the company's bottom line.

Williams Companies (3.7%)

Williams Companies (co.williams.com) is an energy infrastructure company which, together with a master limited partnership which it controls, is engaged in the gathering, treatment and processing of natural gas, principally in Texas, Oklahoma and the Rocky Mountain region of the United States, and in interstate gas transportation. Williams operates some 15,000 miles of interstate pipelines and its 'crown jewel' is one of the major natural gas pipelines in the US, TRANSCO, which connects several large producing regions in the Northeast with the major demand centres in the Southeast and Gulf Coast. Its pipelines deliver approximately 14% of the natural gas consumed in the United States.

EGL's manager believes that Williams Companies is well positioned to benefit from growth in demand for natural gas and natural gas liquids.

Williams is a pure-play pipeline infrastructure company, which Jean-Hugues believes is well positioned to capitalise on demand growth for natural gas and natural gas liquids. He says that, since a proposed merger with Energy Transfer was called off in 2016, Williams' business model has been deleveraged and de-risked through asset sales and contract renegotiations, and its structure has been simplified. He expects earnings and distributable cash flows will grow at higher rates than are currently factored into its share price.

Covanta (3.4%)

EGL's manager likes Covanta's waste-to-energy services and the company's potential for free cash flow growth. This could support deleveraging and dividend growth.

US based Covanta (www.covanta.com) is a leading provider of waste-to-energy services (circa 70% share of the US market). The majority of its operations are in the US, but it also has three facilities in Europe and one in China. The company generates revenues from waste disposal contracts with municipalities as well as from sales of the electricity and recycled metals produced as outputs.

Jean-Hugues considers that Covanta provides municipalities with an environmentally sustainable alternative to landfill for waste while also generating electricity. He says that it generates stable cash flows, backed by contracts and hedges on 85% of revenues, and further supported by solid 25% EBITDA margins. He believes that Covanta is capable of delivering more than 10% free cash flow growth through 2020 and says that this will support deleveraging and dividend growth. In the meantime, Covanta's dividend yield of 6.5% is both attractive and sustainable in his view.

Performance

You can see up-to-date information on the QuotedData website.

It has been just over seven months since EGL's launch and so we consider it too early to make any concrete conclusions regarding its performance record. This is particularly pertinent as the period since EGL's inception has been quite volatile for global equity markets. This has been exacerbated for utilities which were broadly left behind during the cyclical rally that followed President Trump's electoral victory (see Figure 12 below); global equity markets are now trading at, or close to, all-time highs. This is illustrated in Figure 11, which shows that while EGL's performance since launch has been comparable to that of the MSCI World Utilities Index (although with lower NAV volatility) these performances are behind those of the MSCI UK and MSCI World. We note that EGL's share price has been more volatile than all three indices and we believe that this reflects EGL's size and its shareholder base, which appears to have a strong presence of longer-term investors that are slow to turnover their shares. Despite this, aggregate volumes are respectable (an average of 350.2k shares per day since launch) and the manager has observed a general trend of institutional holders being replaced by private wealth managers. It would still seem reasonable to us that, if EGL's board is successful in its ambitions to grow the trust, liquidity should improve and share price volatility should reduce as a consequence.

Since the November downdraft, EGL's NAV has outperformed the full selection of indices, whilst its share price has lagged the full selection of indices.

Figure 12 shows the discrete monthly performances of EGL versus the indices since its launch. These show that November 2016, the month of President Trump's election, saw negative returns for EGL's share price, NAV and all three indices, and utilities underperformed global markets (as represented by the MSCI World) and the UK market (as represented by the MSCI UK) markedly. With gradual reassessment of the policy implications of Trump's electoral victory, and changes in the relative performance of European utilities, December 2016 saw rebounds for all of the metrics although, of the indices, the MSCI World Utilities saw the strongest recovery with EGL's NAV not that far behind. EGL's share price also saw a recovery, but with a noticeable lag as most of this came through in January 2017. As illustrated in Figure 12, utilities outperformed global and UK markets in February 2017 as investors took a slightly more cautious stance, a trend which continued through March. Strength in a number of its European holdings contributed to EGL's outperformance in March.

Figure 11: Cumulative total return performance to 30 April 2017

	1 month (%)	3 months (%)	6 months (%)	Since launch* (%)	Volatility (%)**
EGL NAV	(2.6)	5.6	(2.0)	(0.4)	0.73
EGL share price	5.2	4.9	0.3	11.0	1.87
MSCI World Utilities	(2.7)	3.5	(1.0)	2.2	0.84
MSCI World	(1.9)	2.7	6.1	11.4	0.71
MSCI UK	(1.3)	3.0	5.8	8.0	0.61

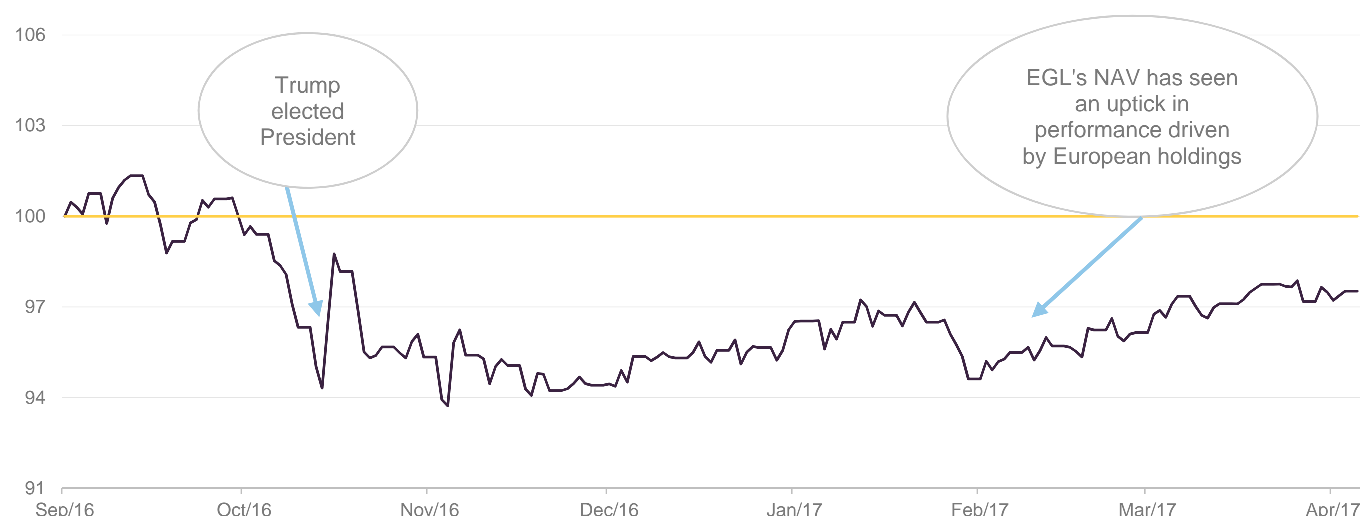
Source: Morningstar, Marten & Co. *Note: EGL was launched on 26 September 2016. **Note: Volatility is the standard deviation of Daily returns from EGL's launch on 26 September 2016 to 30 April 2017.

Figure 12: Discrete monthly total return performance

	October 2016 (%)	November 2016 (%)	December 2016 (%)	January 2017 (%)	February 2017 (%)	March 2017 (%)	April 2017 (%)	Cumulative perf. – Dec to April
EGL NAV	2.9	(10.9)	5.0	(0.9)	4.4	3.8	(2.6)	10.0
EGL share price	3.1	(10.2)	0.8	5.7	(2.6)	2.4	5.2	11.8
MSCI World Utilities	5.2	(8.3)	5.6	(1.1)	5.2	1.2	(2.7)	8.1
MSCI World	4.4	(0.8)	3.6	0.6	4.0	0.6	(1.9)	7.0
MSCI UK	0.9	(1.9)	5.3	(0.5)	3.1	1.2	(1.3)	7.9

Source: Morningstar, Marten & Co

Figure 13: EGL NAV/MSCI World Utilities Index* – rebased to 100 since launch



Source: Morningstar, Marten & Co.

Figure 13 illustrates EGL's NAV total return performance relative to that of the MSCI World Utilities Index (in sterling terms). This illustrates that EGL's NAV underperformed this index in Q4 as EGL's portfolio had significantly less invested in US securities (which rose in the wake of President Trump's election) while UK and European utilities declined. However, since the November downdraft, EGL's NAV has cumulatively outperformed all three indices over the following five months. Figure 13 also illustrates that there has been a marked uplift in relative performance during March and April. The manager says that the portfolio had been positioned for, and therefore benefitted from, an improvement in a number of European holdings.

Quarterly dividend payments targeting at least 4% of NAV per annum

Dividends are paid on the last business day of February, May, August and November.

EGL has a clear dividend policy. It targets a dividend yield of at least 4% on its net assets and can use gearing, and if necessary distributable reserves, to augment its portfolio yield. As a new company, EGL does not have revenue reserves and plans to distribute all of its net revenues. It does, however, have distributable reserves (the result of cancelling its share premium account) and these can also be used to smooth dividends. Dividends are paid quarterly on the last business day of February, May, August and November each year.

For EGL's first accounting period (from launch to 30 September 2017) the maiden dividend was paid in November 2016 at 1.6p per share, which was followed by a second interim dividend at the end of February of 1.6p per share and a third at the end of May (declared). It is expected that this initial period, being longer than a year, will include five dividend payments. However, going forward, it is expected that, for a given financial year, the first interim dividend will be paid in February, with the second, third and fourth interim dividends paid in May, August and November respectively.

The board advises that it seeks to pursue a progressive dividend policy and so, barring exceptional circumstances, we expect that the board will only want to make upwards revisions when changing the quarterly dividend rate and so will seek to ensure that any increases are sustainable. The board has said that it will at least maintain the current quarterly rate of 1.6p for the current financial year, this suggests a minimum total annual dividend of 6.4p for the year ending 30 September 2017. This is equivalent to a yield of 5.2% on the share price of 122.0p as at 19 May 2017.

The portfolio is invested entirely in securities that produce income. These are overwhelmingly equities that pay dividends (98.8% of the portfolio as at 31 March 2017) and, to a limited extent, bonds (1.1% of the portfolio).

Discount / premium

Discount widening during the latter part of 2016 may reflect both the cyclical rally and increasing expectations of interest rate rises in the US supressing demand for utilities exposure.

As illustrated in Figure 14, EGL began trading at a discount of 19.6%, but this quickly narrowed, post launch, reaching a minimum discount of 1.5% on 4 October 2016. This initial tightening was short lived and EGL's discount widened and then settled into a trading range. We think that this may in part reflect the cyclical rally towards the end of 2016 with investors' appetite for more defensive exposures, such as that offered by EGL, being less in demand as well as an increased prospect of interest rate rises, particularly in the US. The market has traditionally seen interest rate rises as being negative for equities in general but particularly for utilities, which tend to have relatively high levels of debt in their capital structures. As discussed on page 15, there have been sales by some institutions since the reconstruction of EWPO but these holders have been replaced by private wealth managers (for example, Charles Stanley's share of EGL increased from 6.6% as at 30 October 2016 to 10.9% as at 31 March 2017, whilst Asset Value Investors sold its 4.9% stake in its entirety over the same period.

EGL is trading in a discount range of 8% to 18%. The average discount since launch is 12.61%.

In recent times, EGL has traded at discounts in a range of between 8% and 18%, while its average discount since launch has been 12.61%. The discount as at 19 May 2017 was 12.9%, which is considerably wider than the board would like or expect it to be. The trust is authorised to repurchase up to 15% and allot up to 10% of its issued share capital, which gives the board a mechanism with which it can influence the discount.

Any repurchases or allotments must be NAV accretive for remaining shareholders after transactions costs. The board says that it will consider using share repurchases to assist in limiting any sustained discount and discount volatility but there is no formal discount control mechanism, or discount target.

We believe share repurchases could be counterproductive and would prefer to see EGL grow in size.

To date, the trust has not repurchased any of its shares, which is reasonable in our view. Given EGL's current size, we think that share repurchases would likely have a limited impact on the discount as they would also serve to reduce liquidity and put upward pressure on EGL's ongoing charges ratio (its fixed costs being spread over a smaller asset base). Instead, we believe that EGL would be better served by increasing its size.

More resources are being allocated to increase awareness of EGL. This includes the appointment of Michael Hart, who is focused on marketing EGL.

The board and manager share this view and more resource is being allocated to increase awareness of the trust among investors. This includes the appointment of Michael Hart to market EGL and work alongside Elspeth Dick in investor relations. The trust has also moved to making daily NAV announcements instead of the previous weekly announcements. It is hoped that this improved visibility will allow the market to form superior NAV estimates that should provide investors with a greater degree of comfort and ultimately contribute to reducing the discount and its volatility.

Figure 14: Premium/(discount) since launch

Source: Morningstar, Marten & Co.

Fees and expenses

Management fee

EGL does not pay a performance fee.

Under the terms of its investment management agreement with Ecofin Limited, EGL pays a base management fee of 1.25% per annum of its net assets, which is calculated and paid quarterly in arrears. There is no performance fee.

Secretarial and administrative services

BNP Paribas Securities Services S.C.A., London branch, provides administrative services to EGL for an annual base fee of £110,258 paid monthly in arrears. In addition to its fixed fee, the administrator is entitled to a variable fee based on the company's net assets. This is charged at 2.25 basis points of the first £75m of net

assets, 1.90 basis points between £75m and £200m, 1.60 basis points between £200m and £300m and 0.6 basis points above £300m. BNP Paribas Secretarial Services Limited provides company secretarial services to EGL for a fee of £72,555 per annum. All of these fees are payable under EGL's administration agreement. This can be terminated by either party on six months' notice.

Depositary and prime brokerage agreement

Under the terms of EGL's depositary agreement, Citibank Europe Plc, UK branch, acts as EGL's depositary. For these services, it charges EGL a fee of 3.75 basis points per annum of its net assets. The depositary agreement can be terminated by either party on 90 days' notice.

Citigroup Global Markets Limited acts as EGL's custodian. Its services are provided under the terms of its prime brokerage agreement under which the custodian also provides borrowings to EGL. As discussed on page 20, EGL pays a rate of Libor + 0.5% to borrow in major currencies.

Allocation of fees and costs

EGL's management fee and finance costs are charged 50% to revenue and 50% to capital. All other costs are charged wholly to revenue. EGL's board expects its ongoing charges to be in the region of 1.50% per annum.

Capital structure and trust life

Simple capital structure

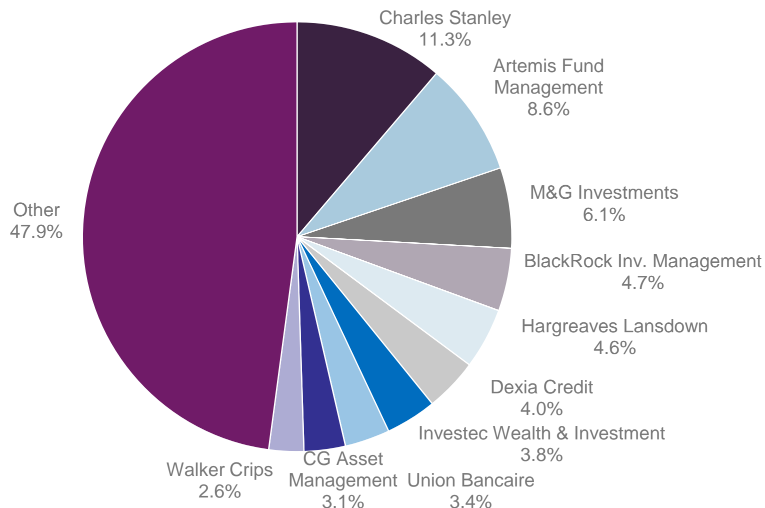
EGL has one class of ordinary share in issue. It can gear up to 25% of net assets.

EGL has a simple capital structure with one class of ordinary share in issue. Its manager has discretion to borrow up to 25% of EGL's net assets but its articles of association state that it will not have any structural gearing. This is a distinct difference from its predecessor, EWPO, whose ordinary shares were geared by both ZDPs and CULS. EGL's ordinary shares have a premium main market listing on the LSE and, as at 13 April 2017, there were 91,872,247 in issue with none held in treasury.

Diversified share register

As illustrated in Figure 15, which provides an illustration of EGL's shareholder base and its largest investors, EGL's share register has a strong institutional presence, but is well diversified. The top 10 largest investors account for 52.1% of EGL's issued share capital and there is also a long tail of smaller institutional holders. Most of the large holders were on EWPO's register for some time before the reconstruction. Some larger institutions have reduced their stakes since, while private wealth managers have been significant buyers.

Figure 15: EGL shareholder base as at 30 April 2017



Source: Ecofin Global Utilities and Infrastructure Trust

Competitive borrowing facility provided by prime brokerage facility with custodian

EGL can borrow up to 25% of its net assets although 18% to 20% is a more realistic upper limit.

EGL is permitted to borrow up to 25% of net assets and has a prime brokerage facility, provided by Citigroup Global Markets, for this purpose. Citigroup Global Markets is the custodian of EGL's assets and, under the terms of the facility, lends against these. This high security of collateral means that EGL is able to borrow at very competitive rates; EGL is able to borrow at Libor + 0.5% for major currencies. The terms of the prime brokerage facility require that EGL relies on this solely for its borrowings. The weighted average cost of borrowings, as at 30 April 2017, was circa 1.1%.

As at 30 April 2017, EGL had net gearing of 2.3%. This is a relatively low level of net gearing for the trust and reflects the manager's cautious stance at that date. Net gearing of around 15% is a more natural level for EGL with a realistic upper limit being 18-20%. The manager says that the 25% limit is in place to provide flexibility and is only likely to be used in more extreme market conditions. It is noteworthy that this facility provides EGL with much greater flexibility to vary its level of gross gearing than was possible for EWPO. EWPO's gearing was provided by zero dividend preference shares and convertible unsecured loan stock and so was structural.

Unlimited life with a continuation vote by the end of June 2019

First continuation vote is due three years from incorporation and then at five-yearly intervals thereafter.

EGL has been established with an unlimited life, but its articles of association require that it offer its shareholders a continuation vote by the end of June 2019 (three years from incorporation) and then at five yearly intervals thereafter. If the resolution is not passed, the directors will be required to bring forward proposals to liquidate, open-end or otherwise reconstruct the company. This puts pressure on the board to ensure that the fund's investment objective is relevant to shareholders' needs and that the fund meets that investment objective.

Financial calendar

The trust's year-end is 30 September and it intends to publish its first annual report to cover the period between its day of incorporation, 27 June 2016, and 30 September

2017. It is anticipated that the annual results will usually be released in December of each year (the interim report should be published shortly) and that the first AGM will be held in early 2018. As discussed on page 17, EGL pays quarterly dividends on the last business day of February, May, August and November each year.

The board

All of the current board transferred across from EWPO's board, ensuring continuity.

EGL's board comprises four directors (details of their individual experience are provided below); all members are non-executive and, with the exception of Martin Nègre, are considered to be independent of the investment manager. Martin is not considered to be independent as he is also chairman of three other funds managed by Ecofin – EF Realisation Company Limited, the Ecofin Vista Long-Short Fund and the Ecofin Global Renewables Infrastructure Fund. All four members were EWPO directors prior to its reconstruction.

All board members stand for re-election annually.

EGL's articles of association require that all board members offer themselves for re-election annually. Ian Barby was previously chairman of EWPO (he was appointed to the board in 2004) and stood down as chairman following the reconstruction. He has since said that he will not seek re-election as a director of EGL at its first AGM (scheduled for early 2018). EGL's articles also limit total directors' fees to £200k.

EGL's board members do not have any other shared directorships. All members have personal investments in the trust.

Other than EGL's board, its directors do not have any other shared directorships and, as illustrated in Figure 16, all of the directors have personal investments in the trust. This is favourable in our view, as it shows commitment to the trust and helps to align directors' interests with those of shareholders. It is also noteworthy that, while Martin Nègre is not considered to be independent of the investment manager, he has a very large personal investment in EGL that should serve to bolster his independence. The average length of service is 9.5 years or 8.2 years excluding that of Ian Barby who is due to retire.

David Simpson

David Simpson is a qualified solicitor and was a partner at KPMG for 15 years until 2013, culminating as global head of M&A. Before that he spent 15 years in investment banking, latterly at Barclays de Zoete Wedd Ltd. He is a trustee of Cardiff University and a director of ITC Limited (India's fourth largest company by market capitalisation). David represents British American Tobacco, which owns approximately 30% of ITC and is its largest shareholder.

Ian Barby

Ian Barby, former chairman of EWPO, was a vice-chairman of Mercury Asset Management Plc from 1990 to 1998 and subsequently a managing director of Merrill Lynch Investment Managers. He is non-executive chairman of Invesco Perpetual UK Smaller Companies Investment Trust Plc and Schroder Income Growth Fund Plc, and a non-executive director and chairman of the audit committee of Pantheon International Plc.

Iain McLaren

Iain McLaren is a chartered accountant and was a partner at KPMG for 27 years, including senior partner in Scotland from 1999 to 2004, retiring from the firm in 2008.

He is the senior independent director and audit committee chairman of Cairn Energy Plc. He is also a non-executive director of Baillie Gifford Shin Nippon Plc, Edinburgh Dragon Trust Plc and Investors Capital Trust Plc. He is a past president of the Institute of Chartered Accountants of Scotland.

Martin Nègre

Martin Nègre was the Chairman of EWPO until 31 March 2005. He was, until June 2001, the chief executive officer of Northumbrian Water Plc, then a subsidiary of Suez Lyonnaise des Eaux, and Suez Lyonnaise's chief corporate representative in the UK. Prior to that, he was Suez Lyonnaise's international director in Paris and then its Asia-Pacific president in Hong Kong and Singapore. Before that, he spent 21 years with Alsthom and GEC Alsthom, the Anglo/French engineering company, where he was a senior executive and the chief executive officer of the power generation division. He is a non-executive director of Northumbrian Water LTD, Bolux SICAV Luxembourg and Messrs Hottinger & Cie, Paris.

Figure 16: Board member - length of service and shareholdings

Director	Position	Date of appointment*	Length of service including EWPO (years)	Annual director's fee (GBP)	Share-holding*	Years of fee invested**
David Simpson	Chairman	23 May 2014	3.0	31,500	65,395	2.5
Iain McLaren	Chairman of the Audit Committee	29 March 2011	6.2	27,000	20,000	0.9
Ian Barby	Director	5 January 2004	13.4	24,300	437,136	21.9
Martin Nègre	Director	5 December 2001	15.5	24,300	2,342,628	117.6
Average (service length, fee, shareholding, fees invested)			9.5	29,750	716,290	35.7

Source: Ecofin Global Utilities and Infrastructure Trust, Marten & Co. *Note: Date of appointment reflects appointment to EGL's predecessor, EWPO. **Note: shareholdings as per most recent company announcements as at 19 May 2017. Years of fee invested based on EGL's ordinary share price of 122.00p as at 19 May 2017.

MARTEN & CO

Authorised and regulated by the Financial Conduct Authority
123a Kings Road, London SW3 4PL
0203 691 9430

www.martenandco.com

Registered in England & Wales number 07981621,
2nd Floor Heathmans House
19 Heathmans Road, London SW6 4TJ

Investment company sales:

Edward Marten
(em@martenandco.com)

Christopher Bunstead
(cb@martenandco.com)

Investment company research:

James Carthew
(jc@martenandco.com)

Matthew Read
(mr@martenandco.com)

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