

Premier Global Infrastructure Trust

Quick out of the blocks in 2019

With a cloud hanging over emerging markets, and adverse sentiment overriding strong micro-economic fundamentals, Premier Global Infrastructure Trust (PGIT) had a testing 2018. However, in the first two months of 2019 it has made an excellent start.

Aided by its geared capital structure, PGIT has returned 20.6% in NAV total return terms, closely matched by its share price total return of 20.1%. The MSCI World Utilities Index returned 3.1% in comparison. Earnings growth for the utilities sector has been solid, despite the market's gyrations. Valuations are now modestly above their five-year averages, but markedly below their five-year highs, and there could be renewed interest as the cycle progresses and investors look for defensive exposure. In the meantime, PGIT continues to offer a strong yield, paid quarterly.

Geared global utilities and infrastructure exposure

PGIT 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. The portfolio has a strong emphasis on emerging markets, smaller companies, special situations and lower weightings to traditional, developed-market utility companies. It is split into three distinct areas: income equities; growth equities; and yieldcos and investment companies. Its zero dividend preference shares (ZDPs) provide a high level of gearing to its ordinary shares.

Year ended	Share price total return (%)	NAV total return (%)	MSCI World Utilities TR (%)	MSCI World TR (%)	MSCI UK TR (%)
28/02/15	16.8	4.5	15.2	17.6	5.4
29/02/16	(28.6)	(23.2)	7.5	(0.7)	(9.2)
28/02/17	48.0	55.5	23.0	36.6	24.2
28/02/18	(13.7)	(22.2)	(7.5)	6.6	3.2
28/02/19	(2.4)	5.1	20.5	4.6	2.1

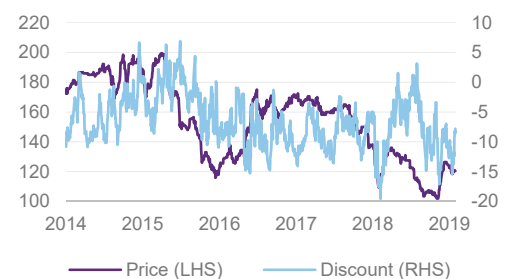
Source: Morningstar, Marten & Co. Note: PGIT does not have a benchmark. For comparison purposes, we have used the MSCI World Utilities Index throughout this report. PGIT's financial year end is 31 December.

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Sector	Sector specialist: Utilities
Ticker	PGIT LN/PGIZ LN
Base currency	GBP
Price (ords.)	120.50p
NAV (ords.)	130.64p
Premium/(discount)	(7.8%)
Yield (ords.)	8.5%

Share price & discount (ords.)

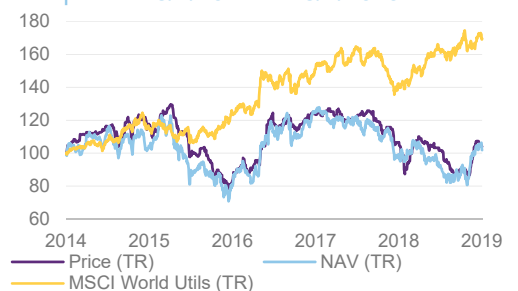
Time period 28/2/2014 to 27/3/2019



Source: Morningstar, Marten & Co

Performance over 5 yrs (ords.)

Time period 28/2/2014 to 28/2/2019



Source: Morningstar, Marten & Co

Domicile	United Kingdom
Inception date	4 November 2003
Manager	J. Smith, C. Long
Market cap (ords.)	21.8m
Ord shrs outstanding	18.1m
Daily vol. (1-yr. avg.)	45.7k shares
Net gearing	105.7%

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PGIT: Income from utilities and infrastructure exposure

Additional information on PGIT is available at the fund manager's website:

www.premierfunds.co.uk

PGIT's ZDPs provide substantial gearing to its ordinary shares.

Premier Global Infrastructure Trust Plc (PGIT) is a UK-listed investment trust that invests globally in the equity and equity-related securities of companies operating in the utility and infrastructure sectors. It maintains a relatively concentrated portfolio, which includes exposure to both developed and emerging markets. PGIT aims to pay a high level of income on its ordinary shares (a yield of 8.5% as at 27 March 2019 - see pages 11 and 12 for further details) and provide long-term capital growth. PGIT's income generation is enhanced by the significant gearing provided to the ordinary shares by its ZDPs (net gearing of 105.7% of the ordinary shares NAV on our estimates— see page 13), but this structure increases the volatility of NAV returns.

Premier Asset Management

James Smith and Claire Long are responsible for the management of PGIT's portfolio.

PGIT's portfolio has been managed by Premier Fund Managers, part of Premier Asset Management Group Plc, since its launch in 2003. James Smith and Claire Long are responsible for the management of PGIT's portfolio. They follow a bottom-up investment process based on fundamental research, and are able to draw on the wider resources of Premier Asset Management. See [our initiation note](#) for more details of the managers' investment process.

No formal benchmark

PGIT does not have a formal benchmark and its portfolio is not managed with respect to one. Instead, the managers' performance is assessed against a set of reference points which are more general in nature and intended to be representative of the broad spread of assets in which the portfolio invests. These references include the FTSE Global Core Infrastructure 50/50 Total Return Index, FTSE All-World Total Return Index and FTSE All-Share Total Return Index. As with previous notes, we are using the MSCI World Utilities Index, the MSCI World Index and MSCI UK Index for performance comparison purposes.

Market outlook and valuations update

Following a testing 2017, 2018 was a mixed year for utilities and infrastructure, but overall these sectors generated positive performance and broadly outperformed global markets (on a total return basis). The MSCI World Utilities returned 8.3% in sterling terms, beating its parent, MSCI World Index, which returned -2.5%.

Valuations in the utilities sector are markedly below their five-year highs.

As discussed in our May 2018 note, global utilities and infrastructure sectors had a punishing start to 2018 (increasing concerns about rising interest rates coupled with agreements over tax reforms and spending plans in the US boosted cyclical sectors at the expense of defensives) but this reversed in March and April. Later in the year, as uncertainty in markets ramped up, these defensive sectors saw a further resurgence. In 2019, they have given back some of this outperformance. Valuations are now modestly above their longer-term five-year averages, but remain markedly below their five-year highs (see Figure 3). This is in part due to an earnings outlook that has continued to strengthen despite the market gyrations.

Figure 1: Global and emerging utilities index performance, relative to parent index, rebased to 100, over five years



Source: Bloomberg, Marten & Co.

Figure 2: Premium/(discount) of F12m P/E to parent index, over five years



Source: Bloomberg, Marten & Co.

PGIT's managers have been using the underperformance of the UK to selectively add to positions where they see value.

During the last 18 months, PGIT's managers have been focusing more on absolute return ideas, reflecting the sector's higher relative valuations. The emerging markets discount (and developed market premium) continues to be expressed by having a higher exposure to emerging markets. The managers have focused on the Asia Pacific ex Japan region (with an emphasis on China and India) and Latin America as they favour the long-term growth outlooks in these regions. The UK market has faced a number of headwinds during the last couple of years (threats of nationalisation, price caps and the prospect of rising interest rates). The managers consider that in many instances, the market's reaction has been overdone, and they have been adding selectively to PGIT's UK holdings where they see value.

Figure 3: Utility valuation discounts versus broader markets as at 27 March 2019

Global utilities	F12m P/E ratio	Emerging Market utilities	F12m P/E ratio
MSCI World	15.60x	MSCI Emerging Markets	12.43x
MSCI World Utilities	17.32x	MSCI Emerging Markets Utilities	11.56x
Global utilities valuation discount (%)	11.1%	Emerging utilities valuation discount (%)	(7.0%)
MSCI World five-year high	18.4x	MSCI Emerging Markets five-year high	14.3x
MSCI World Utilities five-year high	17.6x	MSCI Emerging Markets Utilities five-year high	14.2x
MSCI World five-year average	16.5x	MSCI Emerging Markets five-year average	12.3x
MSCI World Utilities five-year average	16.0x	MSCI Emerging Markets Utilities five-year average	11.2x

Source: Bloomberg, Marten & Co.

The managers' long-term arguments for investing in the utilities and infrastructure sectors and their preference for higher-growth emerging markets remain intact.

Managers' view

The managers' long-term arguments for investing in the utilities and infrastructure sectors and their preference for higher-growth emerging markets remain broadly unchanged, and we recommend readers see our previous notes for more discussion, while noting the following key points:

- Over the last five years, global utilities have modestly underperformed global equities (see Figure 1), albeit with marked periods of under- and outperformance.
- A similar pattern has been seen with emerging market utilities also underperforming emerging market equities.

- During the last couple of years, markets have been very macro-driven, with less attention placed on fundamentals. This cannot persist indefinitely, but it has led to marked periods of under- and outperformance as utilities and infrastructure's defensive exposures have moved in and out of favour.
- Valuations are modestly above their five-year averages, but markedly below their five-year highs. The global economy is increasingly late cycle and, with an improving earnings outlook, utilities defensive exposure may become increasingly sought-after, should the global economy continue to soften.

Figure 4: MSCI UK Utilities Index/MSCI UK Index – rebased to 100 over five years



Source: Bloomberg

Heightened political risk has been a major driver of the underperformance of the utilities and infrastructure sectors in the UK.

PGIT's managers view's on retail price caps have been borne out.

UK utilities – significant headwinds

UK utilities sustained a long period of outperformance against the broader UK equity market until September 2016, but since this time they have given back around half of this outperformance. The turnaround in the sector's fortunes has been stark. PGIT's managers ascribe this to three key drivers:

- Concerns regarding nationalisation under a potential Labour government
- Price caps on electricity and gas
- Interest rates

PGIT's managers consider that heightened political risk, particularly the concerns that utilities and infrastructure could be subject to nationalisation under a Corbyn-led Labour government, have been a key reason for the underperformance of UK utilities and infrastructure. However, they say that the market's reaction has been overdone. They highlight that:

- purchasing the equity alone could require some £180bn, but most of the companies have significant long-term debt financing, with change of control provisions that would prove very costly;
- many assets are now foreign-owned, potentially straining relationships at a time when the UK is seeking to make new trade deals; and
- it is questionable whether a Corbyn-led Labour government can achieve a sufficiently large electoral victory to push nationalisation through.

The UK energy price caps are now in force. PGIT's managers have previously said that they were not overly concerned about these, as:

- approximately 7% of the UK utilities index is exposed to UK retail energy supply (through the supply businesses of Centrica and SSE); and
- the concept that a price cap increases competition is a contradiction in terms, as they need to be set sufficiently high so that smaller, less-efficient operators can enter the market (see page 5 of our May 2018 note for more detail).

The managers have been proved right in this regard. An array of smaller players has been forced out of the market and the regulator has recently been forced to raise the price cap. Ironically, this may have improved the competitive landscape for the big suppliers over the longer term.

The US and China

Emerging markets, to which PGIT is heavily exposed, faced significant headwinds during 2018. Rising interest rates in the US and the reversal of QE led to an outflow of funds from emerging markets, particularly for those with higher exposure to US dollar-denominated liabilities. This was accelerated by rising trade tensions between the US and China, an economic slow-down in China that started to gather some pace, and a

reluctance on the part of the Chinese government to provide significant stimulus. Despite the negative sentiment, underlying earnings growth remains strong (the managers say that, ironically, earnings growth has often been strongest in those companies whose share prices have been the worst performers), which has meant that valuations have improved significantly. The managers believe that these negative macro influences could continue to dominate in the near term, but over the medium term, fundamentals will come back into play and PGIT's portfolio is well-positioned to benefit from this.

Interest rates

While utilities are frequently seen as a bond proxy, the correlation between the performance of utilities and interest rates is weak over the long term.

UK utility company tariffs are reset periodically. Utility companies are usually allowed to earn a real return and a major component of the tariff change is the movement in interest rates.

The value of sterling remains a significant risk factor for PGIT. It has currency hedging strategies in place to mitigate this risk.

The impact of Brexit on portfolio companies is unlikely to be material.

The managers have been adding selectively to areas that have underperformed.

The relationship between interest rates and the returns earned by utilities is a topic that we have discussed in some detail in our previous notes (for example, we recommend readers see page 5 of our February 2016 update note). However, to summarise, the managers highlight that whilst many investors view the sector as a 'bond-proxy' and sell shares in the sector when interest rates increase, there is much evidence to suggest that the correlation between the performance of the utilities sector and interest rates is weak over the long term.

This is because regulated utility tariffs are reset periodically, with a major component of the tariff change being the movement in interest rates; higher interest rates lead to higher allowed returns over time. The managers say that the market tends to focus on the short term and overlooks this natural adjustment mechanism. The potential for interest rate rises in both the US and the UK, with signs of growth slowing, appears to be receding.

Brexit

PGIT with its significant allocation to non-sterling denominated assets, benefitted heavily in the aftermath of the EU referendum in June 2016 as sterling depreciated (we discussed this in our September 2016 note, "A BREXIT beneficiary"). The value of sterling remains a significant risk factor for PGIT. Specifically, should the UK and Europe reach a sensible compromise, the value of sterling would likely appreciate materially, eroding the previous benefits that PGIT accrued. The board and managers have therefore decided to hedge currencies, where this can be done cost-effectively, to mitigate this risk. During 2017, PGIT's currency hedge generated a gain of £1.1m, but during 2018, it incurred a cost of £2.5m (this being the opportunity cost of the gain that PGIT would otherwise have benefitted from as a result of hedging contracts).

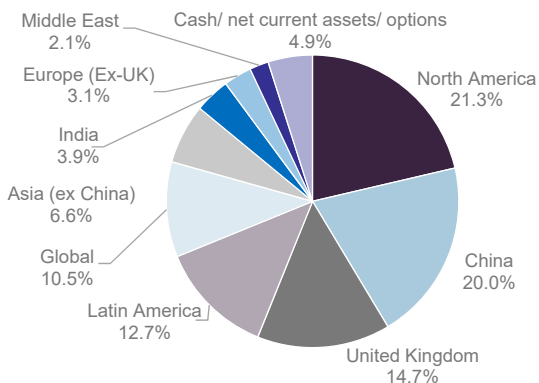
Beyond this, the managers have conducted an assessment of the likely impact of Brexit on portfolio companies, and have concluded that, aside from the currency effects, the impact is unlikely to be material. PGIT's portfolio is mainly invested in domestically focused infrastructure and utility assets, rather than internationally-focused assets such as ports and airports, which are inherently less-sensitive to cross border trade issues that could occur post a hard Brexit.

Asset allocation

Portfolio activity continues to be modest, with the managers focused on higher conviction ideas. By way of illustration, as at 31 January 2019, PGIT had 34 holdings in its portfolio, which is unchanged from the 31 March 2018 (the most recent data when we last published). There has been limited movement in the balance of asset

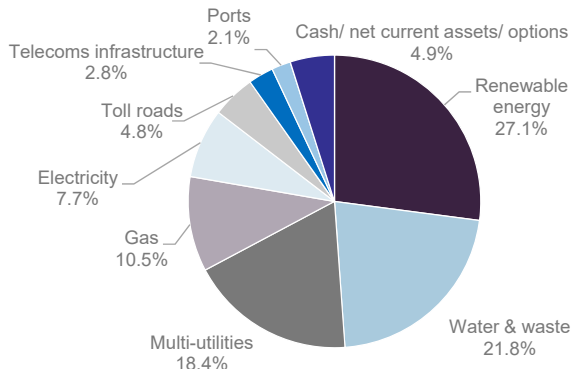
type (growth equity, yield equity and yieldco), but there have been changes in the geographical allocation, as the managers have sought to take advantage of those areas that have underperformed (for example, the UK and emerging markets).

Figure 5: Geographic allocation as at 31 January 2019



Source: Premier Global Infrastructure Trust

Figure 6: Sectoral allocation as at 31 January 2019



Source: Premier Global Infrastructure Trust

Figure 7: Top 10 holdings as at 31 January 2019

Holding	Sector	Geography	Allocation 31 Jan 2019 (%) ^{*1}	Allocation 31 March 2018 (%) ^{*1}	Percentage point change
Cia de Saneamento do Parana ^{*2}	Water and waste	Latin America	7.2	5.8	1.4
China Everbright International	Water and waste	China	6.4	5.1	1.3
National Grid	Multi-utilities	Global	5.6	5.2	0.4
Pennon Group	Water and waste	United Kingdom	5.0	4.4	0.6
Enbridge	Gas	North America	4.5	2.5	2.0
First Trust MLP and Energy Income	Multi-utilities	North America	4.5	3.7	0.8
Beijing Enterprise Holdings	Gas	China	4.2	3.6	0.6
OPG Power Ventures	Electricity	India	3.9	2.5	1.4
China Longyuan Power Group	Renewable energy	China	3.7	0.0	3.7
EcoRodovias	Toll roads	Latin America	3.4	1.4	2.0
Total of top 10			48.4	46.5	1.9

Source: Premier Global Infrastructure Trust, Marten & Co. ^{*1} Note: portfolio excluding cash; ^{*2} Note: Package units of one ordinary share and four preference shares.

The allocation to North America has been reduced as the managers consider valuations in this market to be full. Consequently, while the managers continue to like Avangrid and Sempra Energy from a longer-term perspective, the positions have been exited as there are more compelling opportunities elsewhere.

Additions to positions in National Grid and Pennon.

As discussed on page 5, UK utilities and infrastructure segments have underperformed due to a range of pressures. The managers feel that the reaction has been overdone and have added to PGIT's UK exposure. National Grid was reacquired (this was discussed in some detail in our May 2018 note – see pages 5 and 6 of that note) and the managers added to PGIT's holding in Pennon (they believe that the market is undervaluing Viridor, its waste business).

Holding in SSE reduced.

By contrast, PGIT's holding in SSE has been reduced. The managers say that SSE has been a disappointment on a number of levels: the spin-off of its retail business has been stopped; it warned on profits in September; and there was a poorly-explained loss in its trading division. However, the shares still look attractively-valued, so the managers have retained a modest position.

Managers believe Drax is well positioned.

Another new holding is Drax. There has been a distinct lack of new build generation of any scale in the UK in recent years, raising concerns about energy security against a backdrop of an ageing nuclear fleet. The managers and many other commentators believe that the UK will face a tighter demand and supply balance in the wholesale electricity market in the longer term. Drax has converted four of its six generating units from coal to wood biomass. The managers believe it is well-positioned to benefit from the changing demand-supply dynamic. The managers added to Greencoat UK Wind, as they also think it is well-placed to benefit from the same tightening of the demand and supply balance.

Sold Atlantia before the collapse of the Morandi Bridge in Genoa.

PGIT's European exposure has fallen sharply. The managers sold the Italian toll road company Atlantia (fortunately prior to the collapse of the Morandi Bridge in Genoa). They also sold PGIT's holding in Saeta Yield (renewable energy in Spain) following a bid for the company, with the proceeds reinvested into Atlantica Yield (global renewable energy assets with electricity transmission, gas generation and water production). The managers view European infrastructure and utilities as relatively high-risk, and they see limited opportunities at present.

Figure 8: Subportfolio characteristics

Sub portfolio	Weight (%)	2019 yield (%)	2019 P/E	2020 P/E
Income equities	41.7	5.5	13.5x	12.1x
Growth equities	30.9	3.1	9.9x	8.1x
Yieldcos and investment companies	22.4	9.1	N/A	N/A

Source: Premier Global Infrastructure Trust *Note: Yield equities are held primarily for their yield, which is typically above 3.5%, and tend to be dominated by larger more mature incumbent businesses that are usually located in developed markets. Growth equities are held primarily for their capital appreciation prospects, rather than income generation, and tend to be smaller companies located in emerging markets. PGIT's yieldcos and investments companies holdings are companies set up to own a portfolio of cash producing assets that pay out a high proportion of their cash-flow as a yield to shareholders.

Performance

Results for the year ended 31 December 2018

2019's gains so far, help offset much of 2018's losses.

2018 was a difficult year for PGIT. The total return on its gross assets was -11.0% but the significant level of gearing provided by PGIT's ZDPs amplified the loss so that the NAV total return was -25.4%. In comparison, the MSCI World Utilities, with its higher weighting to developed markets, gained 8.1%. However, in the first two months of 2019, PGIT's NAV total return was 20.6%, which has been closely matched by its share price total return of 20.1%. The MSCI World Utilities Index provided a total return of 3.1% in comparison.

During 2018, the yield equities element of PGIT's portfolio out-performed, while its growth equities portfolio and yieldcos and investment companies portfolio both underperformed. Growth equities underperformed despite underlying performance remaining strong and the yieldcos and investment companies are mainly based in North America and under-performed as a result of the interest rate increases.

2018 was a year in which emerging market assets suffered heavily. While developed market assets, in particular in the US, performed relatively well, a combination of a strong US dollar and recovering oil price drew liquidity from emerging markets while rising trade tensions between the US and China, as well as difficulties in some prominent emerging markets such as Argentina and Turkey, also depressed the asset class.

An environment such as this is not favourable to PGIT’s investment strategy. PGIT has long-term overweight exposure to emerging markets, as its managers prefer the superior long growth prospects and more modest valuations. In comparison, the managers believe that much of the US infrastructure sector is expensive.

Chinese exposure was unhelpful in 2018.

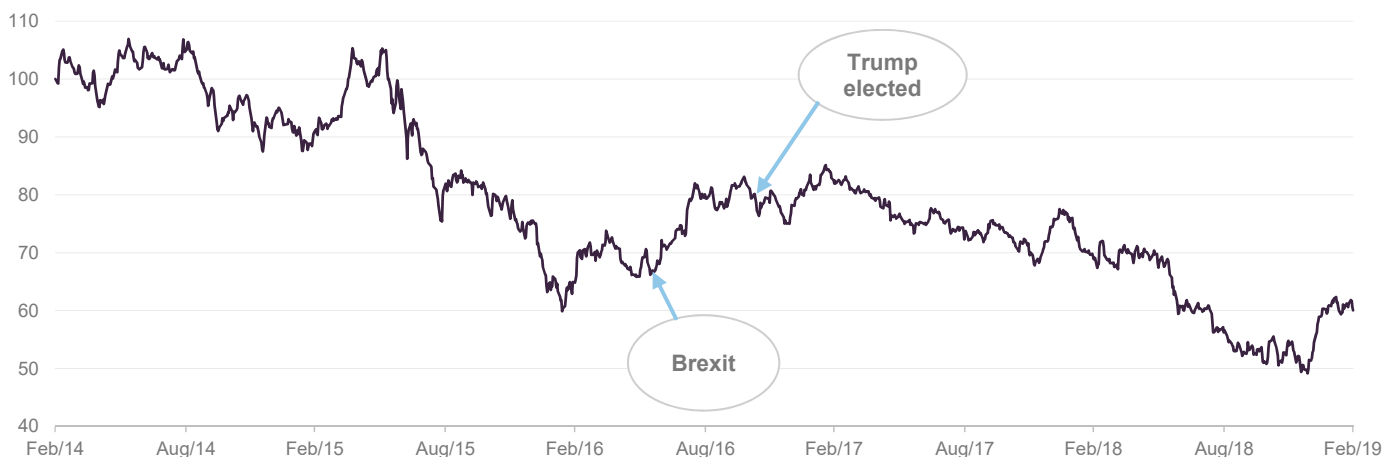
Bolsonaro’s election boosted PGIT’s largest investment.

The main regional weakness for PGIT during 2018 was in China due to both the macro effects noted above and a stock-specific event in the form of a rights issue by PGIT’s largest Chinese investment, China Everbright International.

Along with the rest of the Brazilian market, PGIT’s Brazilian holdings suffered in the run-up to the presidential election, but recovered strongly in the fourth quarter following the result. This saw Jair Bolsonaro win comfortably and, while he is felt to be a controversial candidate, he is generally considered to be the most market-friendly. Toll road company EcoRodovias was a new holding during 2018 that benefitted strongly as a result. Sanepar, which is discussed below, also benefitted.

India was a positive contributor during 2018. Renewable energy company Mytrah was sold into a buyout in the second quarter, realising a 63% premium to the share price at the start of the year. OPG Power’s share price was volatile during the year. This is discussed in more detail below.

Figure 9: PGIT NAV/MSCI World Utilities Index* – rebased to 100 since 28 February 2014



Source: Morningstar, Marten & Co. *Note: PGIT does not have a formal benchmark. For comparison purposes, we have used the MSCI World Utilities Index.

[You can see up-to-date information on the QuotedData website.](#)

The portfolio’s North American investments are focused mainly on the pipeline and renewable energy sectors and, reflecting their more defensive characteristics, these did not participate in the modest strength seen in other North American infrastructure assets. Increasing interest rates also had a dampening effect on the sector, but the managers say that strangely, mainstream North American utilities seemed not to be particularly affected.

Figure 10: Total return performance to 28 February 2019 (Performance figures in excess of one year are annualised)

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)	10 years (%)	Since 1 June 2012 (%)**
NAV	(0.8)	12.3	11.8	5.1	8.3	0.4	6.3	10.5
Share price	(1.2)	14.5	2.4	(2.4)	7.6	0.8	6.3	11.5
MSCI World Utilities*	1.3	1.0	5.3	20.5	11.1	11.2	7.9	10.6
MSCI World*	1.9	(1.5)	(5.3)	4.6	15.1	12.2	14.5	14.3
MSCI UK	2.3	2.2	(2.8)	2.1	9.4	4.6	10.4	8.4

Source: Premier Global Infrastructure Trust, Morningstar, Marten & Co. * Note: All figures are in sterling equivalent terms. **Note: James Smith took over as lead manager with effect from 1 June 2012.

2018 was another difficult year for UK utilities as political risks remained heightened. The managers feel that market prices now more than reflect these risks, and have added to these positions. The managers highlight that, given current uncertainties, UK utilities are trading on attractive yields, which has bolstered PGIT's income account.

OPG Power Ventures

Figure 11: OPG Power Ventures share price (GBP)



Source: Bloomberg

The share price of Indian power generation company, OPG Power Ventures (OPG - www.opgpower.com), once PGIT's largest holding, continued to fall in the first 11 months of 2018, before recovering all of the loss in December. High coal prices depressed earnings and regulatory difficulties in respect of its Gujarati plant led in September 2018 to the write-off of that asset. The managers report that the company's fortunes improved in the second half of 2018. Coal prices moderated (OPG reported a drop of 4% from end September 2018 to the third week of February 2019) and OPG's remaining Chennai plant has benefitted accordingly. One of its four generating units was shut down early in December 2018 to facilitate turbine repairs, but this unit is now back online and producing electricity.

Cia de Saneamento do Parana (Sanepar)

Figure 12: Sanepar share price (BRL)

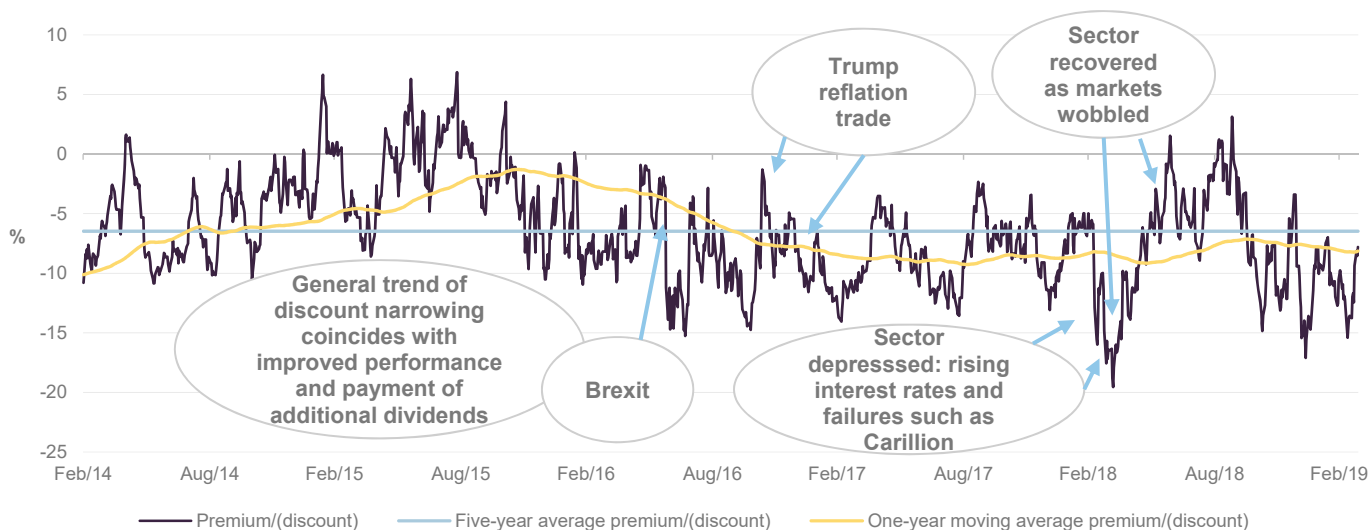


Source: Bloomberg

Brazilian water and waste management company Sanepar (www.sanepar.com.br) is PGIT's largest holding. General adverse sentiment towards emerging markets depressed its share price for much of 2018. However, the election of Jair Bolsonaro boosted the Brazilian stock market, and positive comments on infrastructure investment that his party has made since his inauguration have provided further support for the stock.

Premium/(discount)

Figure 13: Premium/(discount) on ordinary shares over five years



Source: Morningstar, Marten & Co.

The volatility present in PGIT's ordinary share discount is in part a feature of its split capital structure.

PGIT is trading at a discount that exceeds its five-year average.

PGIT pays quarterly dividends with the objective of paying a high annual dividend.

Increased total dividend of 10.2p per share is a yield of 8.5% on share price of 120.5p per share as at 27 March 2018.

2018 revenue generation faced a headwind of stronger sterling.

As we have discussed in our previous notes (see page 15 of this note) the volatility present in PGIT's ordinary share discount is in part a feature of the high level of gearing that is provided by its ZDPs and the volatility that this leads to within PGIT's ordinary share NAV. As illustrated in Figure 13, PGIT's ordinary share discount has recently been widening so that the discount is now noticeably wider than both its five-year average and one-year moving average. Utilities and infrastructure suffered heavily at the beginning of 2018, as investors became concerned about, among other things, the rising interest rates as well as a number of high-profile failures. Markets were also buoyant following tax cuts in the US, and concerns over Chinese growth rescinded. However, as global economic growth started to exhibit signs of slowing and with falling inflation, the prospects of interest rate rises lessened, utilities and infrastructure saw a marked reversion in their fortunes. These trends are apparent in the movement of PGIT's ordinary share discount.

Historically, PGIT's discount has tended to narrow with improving performance and yield, while the reverse has also been true (see page 9 of our July 2017 annual overview note for more discussion). It seems reasonable to us that, if performance improves, this could lead to a narrowing of the discount. The managers have increased their focus on capital preservation and absolute returns (this reflects both the recent challenging environment and that the global economy is increasingly late cycle). This may cause performance to lag as markets peak, but should prove beneficial if markets roll over, as many commentators are predicting.

Quarterly dividend payments

PGIT pays quarterly dividends on its ordinary shares in June, September and December and March. All dividends are paid as interim dividends. Traditionally, the first three interim dividends (June to December) were smaller, with a larger fourth interim in March. However, in 2018, PGIT moved towards more equal dividend payments throughout the year.

For the 2018 year, PGIT paid interim dividends of 2.0p, 3.0p and 2.5p in June, September and December respectively. The fourth interim dividend of 2.7p per share will be paid on 29 March 2019. This brings the total dividend for the year ended 31 December 2018 to 10.2p per share. This is an increase of 2.0% over the 10.0p paid for the prior year and a yield of 8.5% on PGIT's ordinary share price of 120.5p per share as at 27 March 2019. In terms of income generation, PGIT's ordinary shares benefit from the significant finance provided by the ZDP borrowings. The ordinary shares incur the cost of financing the ZDP borrowings, but this is charged to capital, thereby bolstering the revenue account.

2018 revenue generation down due to one-off factors

Regular followers of PGIT will recall that the 2016 and 2017 financial years were strong in terms of revenue generation. 2016 benefitted from a sterling depreciation, whilst 2017 saw several holdings increase dividends on the back of improved earnings (in particular some of the larger emerging market holdings). 2018, in contrast, has seen revenue income fall by 10%, which the managers say is due largely to one-off factors.

We have previously said that there are clear benefits to PGIT's income generation if sterling's weakness is sustained, and during 2018, the average rate of sterling against the US Dollar was almost 4% higher than the previous year, which acted as a

headwind. Furthermore, 2017 saw PGIT benefit from exceptional dividends from two Romanian holdings, which had been instructed by their government to pay one-off higher dividends. These holdings have now been sold. Finally, OPG Power, having paid a cash dividend in 2017, paid their dividend in scrip format for 2018 (PGIT has taken this to capital rather than booking it as income).

Despite this step back in income, PGIT’s managers say that they feel the underlying income trend remains firmly upwards, and comment that individual investments have continued to raise payments at a modest rate.

PGIT retains the capacity to smooth dividends.

As at 31 December 2018, PGIT had revenue reserves of 7.3p per share (equivalent to 4.6p per share after deducting the final dividend for the year of 2.7p per share). This is a small increase over 2017’s 4.5p per share (that is PGIT’s revenue reserve was 8.8p per share before deducting a 4.3p final dividend). The 4.6p per share for 2018 is equivalent to 45.1% of the total dividend for the 2018 year, suggesting that PGIT retains some capacity to smooth dividends going forward. Readers interest in more information on PGIT’s historic revenue generation should see pages 9 and 10 of our July 2017 annual overview note (see page 15 of this note).

Figure 14: PGIT five-year dividend and revenue earnings history



Source: Premier Global Infrastructure Trust, Marten & Co

Fees and costs

Management fee is 0.75% of gross assets. There is no performance fee.

Simplified fees and more competitive structure with no performance fee

With effect from 1 January 2018, PGIT’s fee structure was simplified, with the removal of its performance fee. It was also made considerably more competitive, with a significant reduction in the base management fee from 1.0% to 0.75% - see below.

PGIT now pays a base management fee of 0.75% per annum of its gross assets (i.e. including the assets attributable to the ZDP holders), which is calculated monthly and

paid in arrears. The base management fee is charged 40% to revenue and 60% to capital.

Premier Asset Management also provides company secretarial and administrative services to the company. Company secretarial fees for the 2018 year were £75k (2017: £75k), while administrative expenses were £307k (2017: £267k).

Reflecting its split capital structure, PGIT's ordinary shareholders benefit, in full, from the returns made on both their capital and that of the ZDP holders (positive or negative), but are also liable for the management fees on PGIT's ZDP capital, in addition to their own. As such, the ongoing charges based purely on the ordinary share's NAV are amplified. We estimate these as being 3.8% for the 2017 year and 3.6% for the 2018 year. PGIT's ongoing charges, based on PGIT's total assets (the costs that would be borne by an investor holding a package unit of ordinary shares and ZDPs in their proportions in the capital structure), were 1.7% for 2018, down from 1.8% for 2017. The reduction in ongoing charges reflects, in part, the reduction in PGIT's base management fee.

Capital structure and trust life

Split capital structure – highly geared by ZDPs

PGIT is a split-capital investment trust. It has two types of security in issue: ordinary shares and ZDPs. PGIT's ordinary share register has a strong retail presence. The ZDPs, which were issued by PGIT's wholly-owned subsidiary, PGIT Securities 2020 PLC, provide substantial gearing to PGIT's ordinary shares (facilitating both income enhancement and amplifying performance). As at 28 February 2019, PGIT had 18,088,480 ordinary shares and 24,073,337 ZDP shares in issue.

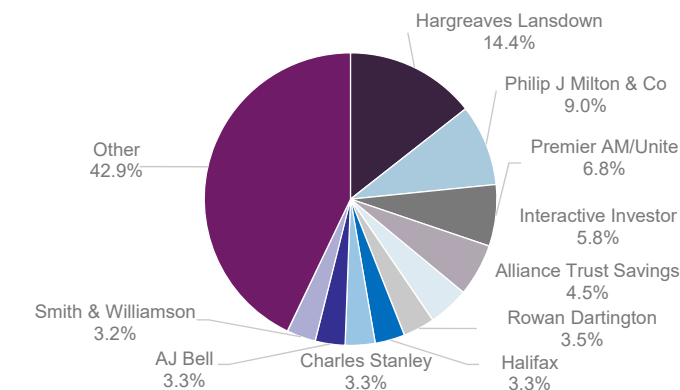
With NAVs of 130.64p and 116.22p for the ordinary shares and ZDP shares respectively as at 27 March 2019, we estimate PGIT had gross gearing of 118.4% and net gearing of 105.7%. The ZDP shares mature on 30 November 2020 with a final entitlement of 125.6519p per 2020 ZDP share. This is equivalent to a GRY of 4.75% per annum over the life of the ZDPs. As at 27 March 2019, the ZDPs had an attributable asset value of 116.22p per share and were trading at 117.0p (a premium of 0.7%). With the final entitlement noted above, the ZDPs offer a yield to maturity of 4.33% per annum. The ZDPs have a coverage ratio of 1.71x.

Unlimited life with five-yearly continuation votes

PGIT has an unlimited life, but offers its ordinary shareholders five-yearly continuation votes (the next continuation vote is scheduled for 2020). PGIT's ZDPs also mature in 2020.

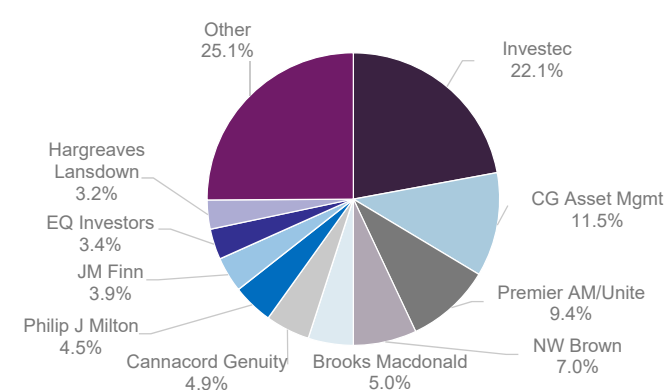
Major shareholders

Figure 15: PGIT's shareholder base (ordinary shares) as at 8 March 2019



Source: Bloomberg

Figure 16: PGIT's shareholder base (ZDP shares) as at 8 March 2019



Source: Bloomberg

Board

Major board refresh during the last couple of years

PGIT has a compact board of three non-executive directors.

PGIT's board has undergone a major refresh in recent years. Having previously numbered four, it now consists of three non-executive members. These are all considered to be independent of the investment manager. Aggregate directors' fees are limited to £150k per annum.

Gill Nott was appointed in 2016 to replace Michael Wrigley; Kasia Robinski was appointed in February 2017 to replace Charles Wilkinson; and Victoria Muir was appointed in March 2018 in advance of Ian Graham's and Geoffrey Burns's retirements (in April and July 2018 respectively). Further to this, Kasia Robinski has said that she will not be seeking re-election at this year's AGM. Melville Trimble is to be nominated for appointment to the Board in her place, also at this year's AGM.

All directors stand for re-election at three-yearly intervals, unless they have served for nine or more years, after which they stand for re-election annually. With the retirements of Geoffrey Burns and Ian Graham, no director has served more than nine years. Gill Nott is now the longest-serving director, with just three years of service under her belt.

Figure 17: Board member - length of service and shareholdings

Director	Position	Date of appointment	Length of service (years)	Annual director's fee (GBP)	Shareholding*	Years of fee invested*
Gill Nott	Chairman	1 March 2016	3.1	26,000	15,000	0.7
Victoria Muir	Director	14 March 2018	1.0	18,000	2,500	0.2
Kasia Robinski	Director	28 February 2017	2.1	18,000	Nil	0.0
Average (service length, fee, shareholding, fees invested)			2.1	20,667	5,883	0.3

Source: Premier Global Infrastructure Trust, Marten & Co. *Note: shareholdings as per most recent company announcements as at 27 March 2019. Years of fee invested based on PGIT's ordinary share price of 120.50p as at 27 March 2019.

Melville Trimble (director nominee)

Melville has many years of experience in the investment trust industry and was, until January this year, a deputy chair of the Association of Investment Companies and chair of its audit committee. Melville has previously worked for PwC, where he specialised in providing advisory services to London listed funds. He was previously the finance director of Herald Investment Management Limited and, prior to this, was a corporate financier specialising in investment trusts for Cazenove and Merrill Lynch International. Melville has previously held a number of non-executive directorships including: The Black Sea Property Fund, Anson Group and Invesco Income Growth Trust Plc.

Previous publications

Readers interested in further information about PGIT may wish to read our previous notes, as detailed in Figure 18. You can read the notes by clicking on them in Figure 18 or by visiting our website.

Figure 18: Marten & Co. previously published notes on PGIT

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 overview	16 July 2015
It's a £24m rollover!	Update	4 February 2016
A BREXIT beneficiary	Update	5 September 2016
Pocket rocket	Annual overview	12 July 2017
Evolution, not revolution	Update	28 November 2017
Swings and roundabouts	Update	10 May 2018

Source: Marten & Co.

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