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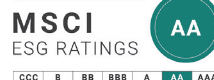
Ecofin Sustainable Listed Infrastructure UCITS Fund (ESLIF)

Q2 2024 QUARTERLY COMMENTARY



Represents the aggregate rating of ESLIF's holdings as of 30 June 2024. Certain information ©2024 MSCI ESG Research LLC. Reproduced by permission; no further distribution permitted. See last page of the factsheet for additional information on the rating.

Please note that this Ireland domiciled Ecofin Sustainable Listed Infrastructure UCITS Fund ("ESLIF") was launched 23 February 2022. A UCITS fund with the same strategy and investment management team as ESLIF was previously launched under Luxembourg domiciliation in August 2019 ("Lux Fund"); however, due to platform onboarding issues in Luxembourg, Lux Fund was placed into liquidation in early June 2022 after the largest investor had transferred its investment to ESLIF.

Performance

Over the quarter, the NAV total return was 2.9% compared with the S&P Global Infrastructure Index's 3.1% (total return in Euros). Over the period since the launch of ESLIF (Irish fund format) in February 2022, the NAV total return is 9.3% versus the benchmark index's increase of 16.3%.

As of 30 June 2024

(All total returns in EUR)	3 months %	6 months %	1 year %	Since inception* %
ESLIF NAV	2.9	6.5	2.4	9.3
S&P Global Infrastructure Index	3.1	6.7	7.9	16.3

*24 February 2022

For information purposes, performance information for the Lux Fund from its inception on 6 August 2019 to 31 May 2022 is provided below. Although both ESLIF and Lux Fund are managed by Ecofin Advisors Limited to the same strategy, Lux Fund's performance information DOES NOT constitute ESLIF's performance and it is provided for background information purposes only.

Performance of Lux Fund from August 2019 to 31 May 2022 (Lux Fund was closed in early June 2022)

(All total returns in EUR)	2019 %	2020 %	2021 %	2022 %	Since inception* %
Lux Fund NAV	10.8	4.1	21.0	3.3	44.1
S&P Global Infrastructure Index	8.7	-14.2	19.5	14.0	27.1

*6 August 2019

Market overview

The upturn in sentiment around the strategy's sectors that started in March persisted into early summer. Growing confidence that the inflation outlook would permit policy rate reductions was rewarded with the first of these occurring in Switzerland, Canada and Sweden followed by the European Central Bank (ECB). Employment data in the U.S. meant continuing hesitation on lowering policy interest rates there, but longer-term U.S. bond yields did close the quarter at around 4.4%, lower than where they started (4.7%). Globally, listed infrastructure (+3.1%) came close to matching the returns on the MSCI World Index (+3.7%) for the quarter.

U.S. utilities were the stand-out performers with large holdings NextEra, Vistra and Constellation the leading contributors to NAV. The resurgence of U.S. power demand growth, largely driven by artificial intelligence's (AI) data centres, has been favouring baseload power producers and the transmission & distribution utilities that will hook that power up to final users. In Europe as well as in the U.S., power prices were rising, erasing early 2024 falls, and earnings results and guidance were in line with or nicely ahead of consensus expectations, helping to fuel share prices with valuations still relatively low.

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After a few strong months for utilities in particular, June ushered in some profit taking and caution with politics disrupting markets on both sides of the Atlantic. French bonds and stocks reacted badly, fearing the potential for government intervention by whichever alliance might emerge to hold power further to Macron's call for snap parliamentary elections. A general election was approaching in the UK, and Biden's shaky performance in his debate against Trump was cause for weakness amongst clean energy stocks for which market conditions had recently stabilised.

Listed renewables developers and operators continued to attract interest from private equity and strategic investors. Several deals were announced during the quarter, including Brookfield's offer for Neoen, ECP's for Atlantica Sustainable, and EQT Infrastructure's for OX2. We believe these transactions reflect the low valuations in the sector and the attractiveness of cash-generative assets combined with strong development pipelines which will enable the expected substantial renewables electricity demand growth in the coming years. In our view these growth pipelines are not reflected in current price levels.

Performance attribution

The 5 best and worst contributors to the NAV during the quarter were:

Company	Avg. net exposure	NAV contribution %
Top 5:		
Vistra Corp	3.3	0.8
NextEra Energy Inc	6.1	0.8
Constellation Energy Corp	4.3	0.5
China Suntien Green Energy Corp	1.9	0.5
SSE PLC	3.8	0.4
Bottom 5:		
Vinci SA	2.9	-0.5
Exelon Corp	2.8	-0.2
National Grid PLC	4.9	-0.2
Veolia Environnement SA	3.2	-0.2
Engie SA	2.0	-0.1

By sub-sector, nuclear power is where a lot of the excitement has been in the utilities space. **Vistra**, a major owner of nuclear as well as other baseload power, has large operations in Texas where the market is under-supplied and forward power prices were rising despite generally soft spot gas prices. **Constellation** (100% nuclear nuclear) continued to perform; management was on the road and delivered an upbeat story about power prices and demand growth due to AI/data centre opportunities. **NextEra Energy**'s shares took March's positive momentum into Q2: NextEra has a relatively large nuclear footprint, Q1 earnings were over 20% ahead of consensus expectations and it had one of its best quarters in terms of new renewables and storage project originations. Southern Company (also in the portfolio) significantly expanded its nuclear capacity in April as its Vogtle-4 unit was placed in service, making Southern one of the largest clean energy generators in the U.S..

Hong Kong-listed Chinese equities in the portfolio were strong performers in Q2, most notably **China Suntien Green Energy**, with valuations beginning to recover from very low levels. **SSE** reported strong results, a confident message about full commercial operation and earnings contribution from Dogger Bank in 2025, and the opportunity stemming from data centres across generation, networks and storage.

French bonds and stocks reacted badly to Macron's call for snap parliamentary elections. The introduction of significant uncertainty for French economic policy – potentially around nationalisation in certain sectors (such as motorway concessions) and/or a dilution of energy transition ambitions – and the rise in French bond yields caused a lot of noise for **Vinci** and Atlas Arteria (both own/operate toll roads in France and elsewhere), **Veolia** and **Engie**. Upon Macron's unexpected election call, we trimmed exposure to the three French holdings.

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National Grid reported a solid quarter but all eyes were on its £7 biilion equity issuance to support upgraded capex plans – to £60 billion over five years, almost double the £33 billion deployed over the last five years and >20% above consensus. The rights issue was sooner than expected too, with the acceleration likely driven by improving capex visibility and possibly the UK election. The shares were very weak for several days thereafter, struggling to absorb the heavily dilutive rights and the group's plan to double its capex budget without any clear effect on its earnings growth profile. Although the market's initial reaction was a thumbs-down, we believe National Grid should be one of the most attractive profiles around for the next 2 to 3 years, trading at less than 12x earnings. We exercised our rights and added to the position on the lows late May; the shares have since recovered by more than 10%.

Exelon, predominantly a transmission & distribution electric utility, underperformed further to a disappointing rate case result in one of the jurisdictions it operates in. The rate order set a return on equity below market expectations and kept the rate base flat through 2027 which should challenge the company's earning power unless it manages to accelerate capex deployment.

Portfolio changes

In May, on the back of strong share price gains we took partial profits in several U.S. utilities. A new holding was established in BKW which is involved in energy production (mostly hydro, wind and nuclear), trading, grids and services in Europe.

Later in the quarter, after what we viewed as an unduly harsh setback for share prices in parts of the portfolio, we added to high conviction holdings including National Grid, NextEra, AEP, Edison International and Dominion. NextEra's shares had pulled back after announcing the issuance of $2bn in equity units to help fund capital needs for the next couple of years; in our minds, this should not have surprised or disappointed the market and reflects NextEra's strong growth profile and dominant renewables development position. The consternation in May caused by National Grid's equity issuance to fund much higher capex plans calmed and the company, now the strategy's largest holding, was a strong NAV contributor in June.

Considering the outstanding performances in their shares over previous quarters – Vistra +123% and Constellation +71% year-to-date – holdings in these companies were reduced in June. Both companies own nuclear plants producing carbon-free electricity for which there is plenty of demand and bipartisan government support and our confidence in their long-term fundamentals is undimmed.

Yield

The yield on the portfolio was 4.5% as at 30 June (4.5% as at 31 March). We expect the portfolio will deliver another above average rate of increase in income from investments. Long term, we continue to anticipate growth in income from investments closer to 5 to 7% per annum.

Strategy

The upswing in portfolio performance that began in March has persisted, albeit unevenly. We expect that valuation multiples in EGL's listed infrastructure sectors, which remain near historic lows relative to broad market averages, will continue to expand. There are plenty of compelling investment opportunities with the earnings momentum we're seeing and dividends yields in the region of 3 to 8%. Utilities in the portfolio will continue to grow their earnings, almost irrespective of the economic backdrop due to the proportions of revenues which are fully contracted or regulated. The adoption of artificial intelligence and data centres are supporting our expectation for power demand growth in the U.S. and, moreover, data centre owners are showing a willingness to pay a premium for reliable and clean electricity, recognising that electricity is not plentiful and that uninterrupted clean energy is not a commodity. The growth the sector should experience globally will also reflect the quantum increase in investments in electricity networks we are seeing. A pronounced acceleration in capex growth by power grid operators is underway, motivated by the ever increasing installed base of renewables capacity for which new transmission and distribution connections are required, the electrification of economies and the associated need for grid upgrades. Investment need and allowed returns for these regulated activities are usually highly correlated.

Beyond power utilities, we continue to like the opportunities amongst companies operating and investing to upgrade environmental services and transportation infrastructure. These parts of the portfolio contribute growth, a degree of cyclicality, inflation protection (airports and toll roads, for example, have long term pricing power in relation to inflation) and provide diversification. Very large sums have been raised by private equity since December 2023 to devote to infrastructure investment globally, adding to already record levels of available cash. In view of the significant gap in valuations between listed and private infrastructure, merger and acquisition activity is returning to this strategy's sectors and should provide support for a re-rating of the growth opportunity.

For now, global equity indices continue to rise on the back of narrow and tech-focussed leadership, but at some point – perhaps prompted by lower bond yields and sluggish economies – this is likely to change and bring back into focus sectors such as listed infrastructure where growth momentum is accelerating, dividends are above average and valuations are low.

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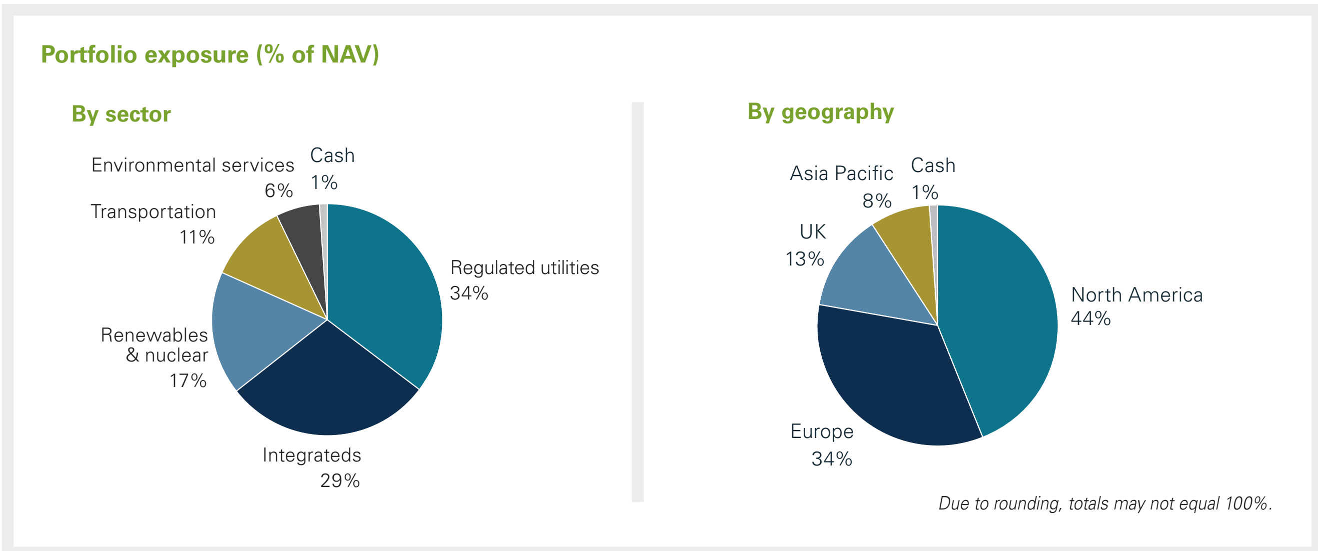
As of 30 June 2024



The fund continues to screen well in terms of carbon emissions, i.e. tonnes of CO_2 emitted per megawatt hour of electricity generation. For this strategy, Ecofin does not set firm limits on fossil fuel exposure and invests in companies transitioning to better growth and ESG profiles (rather than permitting only 'clean' stocks). As of 30 June, this portfolio's electricity generators had CO_2 emissions which were 12% below the average emissions of the electricity grids in which the companies operate, largely because of a relatively small reliance on coal (c. 11% of the mix), and 14% lower than those of companies in the global utilities index (as measured in tCO_2/$million invested). On a forward-looking basis, due to our focus on companies in transition, the portfolio's emissions profile looks even better, with almost all companies having committed to both a full phase-out of fossil fuels in the medium term and a net zero emissions target in the long run.

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- AAA, AA: Leader- The companies that the fund invests in tend to show strong and/or improving management of financially relevant environmental, social and governance issues. These companies may be more resilient to disruptions arising from ESG events.
- A, BB, BB: Average- The fund invests in companies that tend to show average management of ESG issues, or in a mix of companies with both above-average and below-average ESG risk management.
- B, CCC: Laggard- The fund is exposed to companies that do not demonstrate adequate management of the ESG risks that they face or show worsening management of these issues. These companies may be more vulnerable to disruptions arising from ESG events.

The Fund ESG Rating is calculated as a direct mapping of "Fund ESG Quality Score" to letter rating categories.

- 8.6- 10: AAA
- 7.1- 8.6: AA
- 5.7- 7.1: A
- 4.3- 5.7: BBB
- 2.9- 4.3: BB
- 1.4- 2.9: B
- 0.0- 1.4: CCC

The "Fund ESG Quality Score" assesses the resilience of a fund's aggregate holdings to long term ESG risks. Highly rated funds consist of issuers with leading or improving management of key ESG risks, based on a granular breakdown of each issuer's business: its core product or business segments, the locations of its assets or revenues, and other relevant measures such as outsourced production. The "Fund ESG Quality Score" is provided on a 0-10 score, with 0 and 10 being the respective lowest and highest possible fund scores.

The "Fund ESG Quality Score" is assessed using the underlying holding's "Overall ESG Scores", "Overall ESG Ratings", and "Overall ESG Rating Trends". The "Fund ESG Quality Score" is equal to the "Fund Weighted Average ESG Score". MSCI calculates the "Fund Weighted Average ESG Score" of the underlying holding's "Overall ESG Scores". The Overall ESG Scores represent either the ESG Ratings Final Industry-Adjusted Score or Government Adjusted ESG Score of the issuer. Methodology for the issuer level scores are available in the MSCI ESG Ratings Methodology document.

The stated rating only applies to the Institutional share class and other share class ratings may differ.

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