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Ecofin Sustainable Listed Infrastructure UCITS Fund (ESLIF)

Q3 2022 QUARTERLY COMMENTARY

Please note that this Ireland domiciled Ecofin Sustainable Listed Infrastructure UCITS Fund ("ESLIF") is a newly-launched fund (launch date 23 February 2022) which does not have a full year of performance. 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 fund's NAV decreased by 3.1% compared with the S&P Global Infrastructure Index which declined by 3.8% (total returns in Euros). Over the period since ESLIF's inception on 23 February 2022, the NAV rose by 4.9%, in line with the benchmark index.

As of 30 September 2022

(All total returns in EUR)	3 months %	6 months %	Since inception* %
ESLIF NAV	-3.1	-3.3	4.9
S&P Global Infrastructure Index	-3.8	-5.4	4.9

*24 February 2022

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. For strategy 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 were managed by Ecofin Advisors Limited to the same strategy, Lux Fund's performance information DOES NOT constitute ESLIF's performance as it is provided for background information purposes only.

Market overview

Geopolitics, domestic politics and interest rates monopolised much of the news flow during the quarter, as did energy affordability and the U.S.'s significant new climate legislation in the Inflation Reduction Act (IRA). Power prices, until September's pullbacks (from successive new record highs in Europe), continued to rise and especially significantly in Europe where governments prepared for a full or partial cut-off of Russian gas supplies and a rationing of gas over the winter (at least). In Q3, the MSCI World Index and ESLIF's sectors made a strong advance until about mid-August when central bankers' prioritisation of inflation control in the face of economic weakness caused an abrupt change in tone and sent bond yields much higher.

The new UK government's mini budget in September triggered huge reactions in the financial markets here and contributed to weakness for UK utilities for the quarter (-9.5% in sterling terms). By region, U.S. utilities continued to be the strongest performers this year, even after September's severe repricing (S&P 500 Utilities -6.0% for the quarter; -6.5% YTD in U.S. dollar terms). On 29 September, Germany announced a €200bn plan to help offset giant energy cost increases over the next 18 months; the UK government has a similarly generous plan and other countries have or are likely to follow with proposals to mitigate the burden on consumers and the economy from sky-high energy costs. On 30 September, EU energy ministers agreed to reduce electricity consumption by 5% in peak hours (mandatory) and by 10% overall (voluntary) from the beginning of December until 31 March 2023. The EU also agreed to cap revenues at €180/MWh for power generators, with lower caps permissible for those with lower marginal costs (renewables, nuclear) until mid-2023. Although we may well see further intervention and the agreement gives significant latitude to member states on implementation, these are price levels which safeguard a high level of profitability in the sector and promote investment in additional renewable capacity.

The SLI strategy continued to demonstrate its defensive nature for most of the quarter, encouraged by solid corporate earnings and guidance and, more generally, the inflation pass-throughs in infrastructure company business models. September's vicious market drawdown was broad, however (negative returns for all global sectors), and there was a swift mean-reversion for markets, regions and sectors, like this strategy's utilities & infrastructure, which had performed relatively well year-to-date.

Performance attribution

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

Company	Avg. net exposure	NAV contribution %
Top 5:		
Constellation Energy	2.2	0.88
EDF	2.1	0.77
NextEra Energy	5.8	0.39
AES Corp.	2.4	0.29
RWE	3.7	0.25
Bottom 5:		
Atlas Arteria	3.1	-0.63
Enel	3.2	-0.57
Endesa	3.1	-0.46
Terna	2.3	-0.40
China Longyuan	1.1	-0.39

Nuclear and renewables specialists, including Constellation, AES and NextEra, responded well to President Biden's long-awaited climate legislation, the Inflation Reduction Act, which passed into law in August and should dramatically increase deployment of clean technologies over the years and significantly improve the chances of meeting 2050 emissions targets. There was read-across to European names, such as RWE, with U.S. clean energy investments.

Constellation is the largest merchant nuclear fleet operator in the U.S. CEG was spun out of Exelon earlier this year. CEG has been a beneficiary of higher natural gas prices as it has open merchant power price exposure in future years. The IRA also included a nuclear production tax credit which effectively sets an attractive baseline power price for nuclear generation, improving visibility of returns, and warranting the shares a higher valuation multiple. Future catalysts for the shares include M&A (rolling up further nuclear assets in the U.S.) and green hydrogen production opportunities.

EDF was a strong performer as the French government announced it would nationalise the company – and therefore the whole of the French nuclear industry – at a price to minority shareholders of €12 (the transaction launched in September).

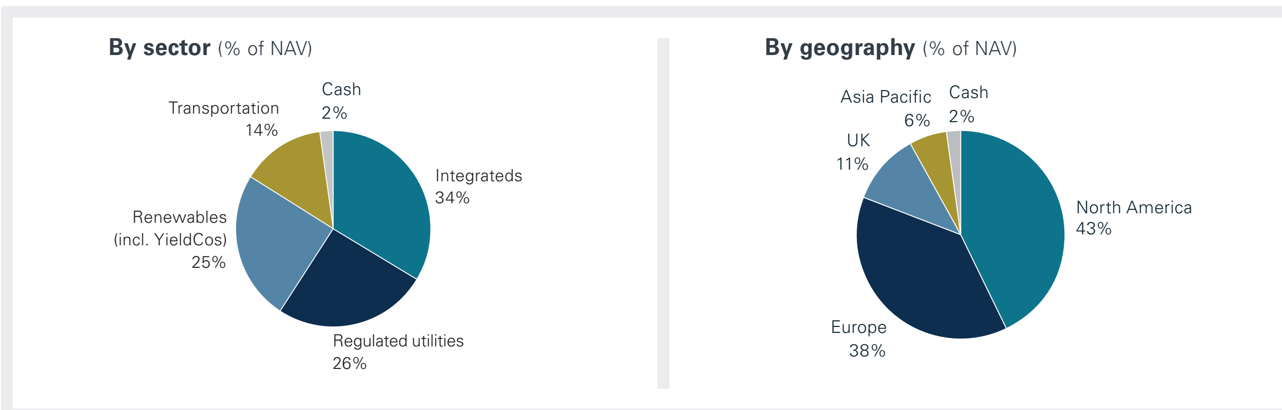
NextEra Energy's shares reacted well to the IRA and a good set of Q2 results, confidence from the new management team about accomplishing previously stated targets, and reiteration of strong dividend growth for the next 3 years (before IRA considerations).

Atlas Arteria, a strongly positive contributor in Q2 further to the acquisition of a 19% stake in the company by IFM, retreated after Atlas announced it was acquiring 67% of the Chicago Skyway toll road for $2bn, a deal strongly opposed by IFM. A large equity funding at a discounted price was required and completed in difficult markets. The Skyway deal means that a future take-over of the whole company by IFM could be significantly more costly.

Enel (Italy) and Endesa (Spain) continued to be buffeted by growing fears of windfall taxes or other forms of government interventions in the wake of energy unaffordability. For Enel, there was concern about its ability to pass higher costs to retail customers and more generally about rising Italian interest rates and uncertainties brought about by the Italian elections. The stock now trades at a (low) valuation level rarely seen in the last two decades. Italian sovereign risk also weighed on Terna's shares.

China Longyuan, the largest publicly listed renewables developer in China, is having tough year-on-year comparisons for wind generation; concerns over increasingly competitive wind auctions were also a hindrance. Wind comps should improve as we progress through the rest of the year, and progress has been made with the government payback of overdue feed-in tariff receivables. China remains in a very different interest rate cycle to Europe or the U.S., which should be supportive for duration stocks, and Longyuan's stock (like its Chinese peers) has fallen substantially in the absence of negative earnings revisions.

As of 30 September 2022



Portfolio changes

Early in the quarter we reintroduced Brookfield Renewable Partners into the portfolio and added to NextEra Energy. We took some profits in Drax and Ferrovial.

Yield

The yield on the portfolio was 4.1% at 30 September (3.9% at 30 June 2022). We saw a very strong rebound in dividend receipts in 2021 given the resilience in demand for most of the portfolio's essential services, the economics for renewable energy and a strong recovery where certain companies had been prevented from paying dividends in 2020. Strong growth in income, above our longer term growth target of +5-7% per annum, continues this year.

Strategy

The war in Ukraine and its far-reaching consequences continue to present major risks for economies and markets. Interest rates are rising to combat sharply higher inflation – the same inflation which should benefit companies in the portfolio through direct adjustments in regulatory remuneration rates and/or higher energy commodity prices. This era of higher rates is not being ushered in without severe disruption to markets valuations. Intervention through price regulation and windfall taxes by governments trying to mitigate the impact of higher power prices on consumers is a risk to higher profits and a source of volatility.

The current environment also marks a significant turning point in energy priorities and policies and a deepening commitment to the energy transition by countries and companies. Beyond near-term macro risks, there should be exceptional, above market average growth opportunities in the energy transition sphere which has been given a major boost from the U.S. Inflation Reduction Act (IRA) and a heightened sense of urgency as the Ukraine crisis redoubles efforts towards energy security, reduced overall gas consumption and decarbonisation.

The rollercoaster passing of the IRA in the U.S. will, we expect, prove to be something of a watershed moment for the deployment pace and cost competitiveness of cleantech and renewables and serve as an important catalyst for much greater domestic manufacturing capacity for both. Europe is making strides to develop policy which attempts to detach electricity prices from very elevated gas prices, and thereby reduce Russia's influence on the European electricity market. Together, these are expected to be positive for capex, growth and profitability for the transforming power sector.

Fundamentals for renewables development are strong: demand growth is accelerating due to the need to substitute gas and coal for economic reasons (renewables are cheaper) and to ensure security of supply. Moreover, renewables costs are declining on the back of falling costs for inputs such as steel, copper and logistics. This bodes well for competitiveness and development margins.

The transportation infrastructure (toll road and air) traffic and earnings recovery post-Covid has been stronger than many expected, and deal activity is expected to continue while listed valuations are at deep discounts to transactions in private markets.

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). Nevertheless, at a portfolio level our approach delivers an emissions profile which is well within the spectrum of typical impact funds. As of 30 September, this portfolio's electricity generators had CO_2 emissions which were 21% below the average emissions of the electricity grids in which the companies operate, largely because of a relatively small reliance on coal (c. 10% of the mix), and 26% lower than those of companies in the global utilities index (as measured in tCO_2/$million invested). On a forward-looking basis, specifically 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.