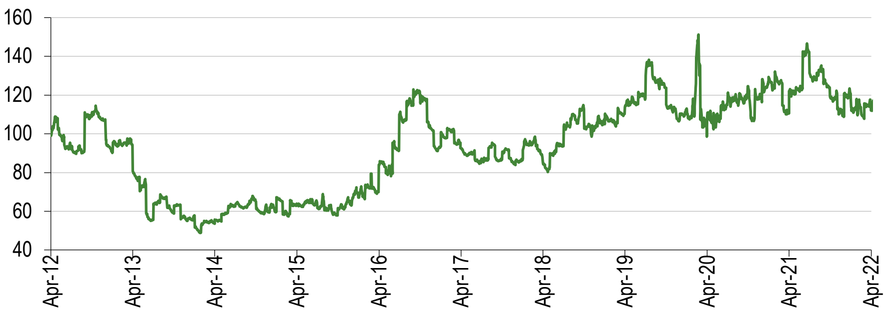
UIL

Strong investee company fundamentals to win out

Investment companies
Global value

UIL Limited (UIL) is managed by Charles Jillings at deep-value investor ICM. He and his team employ a leveraged strategy, seeking undervalued specialist assets across the globe that can be held for the long term. The manager highlights what he considers to be the most important current macroeconomic headwinds: China's zero-COVID-19 policy and the war in Ukraine. However, he is confident that the management teams of UIL's investee businesses will be able to navigate these challenges and Jillings is bullish about UIL's longer-term prospects.

Long-term NAV outperformance versus the broad UK market



Source: Refinitiv, Edison Investment Research. Note: NAV total return versus the CBOE UK All Companies index over 10 years to end-April 2022.

The analyst's view

UIL offers investors a differentiated fund structure, which is shaped by Jillings' three medium-term core views: the world's financial markets are over-indebted; technological change offers strong investment upside; and emerging markets offer better GDP growth opportunities than developed markets. The largest geographic exposures are Australia (c 36%), North America (c 18%) and UK (c 14%), while the biggest sector weightings are financial services (c 38%), resources (c 20%) and technology (c 19%). Around 80% of the portfolio is held in collective investment vehicles with specific mandates that are managed by ICM and known as 'platforms', with the remainder in direct investments. As shown in the chart above, over the long term UIL has outperformed its broad UK equity market benchmark; however, as would be expected given its unique structure, there is a low correlation between the company's performance and those of global stock markets.

Hidden value within the portfolio

UIL trades on a wide discount (currently 29.7% based on its last published cum-income NAV); however, this is understated given that some of its platforms are also trading at a discount to the value of their underlying investments thus affording UIL's shareholders a 'double discount'. As an example, Utilico Emerging Markets (c 15% of the portfolio) is currently trading at a c 13.5% discount to its cum-income NAV. UIL pays regular quarterly dividends and the total annual distribution is fully covered by income. Based on its current share price, the company offers an attractive 3.7% dividend yield.

NOT INTENDED FOR PERSONS IN THE EEA

27 May 2022

Price		**215.0p**
Market cap		**£180m**
AUM		**£422m**
NAV*		305.8p
Discount to NAV		29.7%
*Including income. As at 25 May 2022.		
Yield		3.7%
Ordinary shares in issue		83.8m
Code/ISIN		UTL/BMG917071026
Primary exchange		LSE
AIC sector		Flexible Investment
52-week high/low	282.0p	206.0p
NAV* high/low	431.5p	265.9p
*Including income		
Net gearing*		64.5%
*Including zero discount preference (ZDP) shares. As at 30 April 2022.		

Fund objective

UIL's objective is to maximise shareholder returns by identifying and investing in investments worldwide where the estimated underlying value is not reflected in the market price. The company's investment performance is benchmarked against the broad UK equity market. The fund is a member of the AIC flexible investment sector. (Our initiation report was published in December 2019.)

Bull points

- Specialist fund with a long-term record of outperformance.
- Regular quarterly dividend payments and an attractive yield.
- Scope for a higher valuation given large discount to NAV.

Bear points

- Levered strategy means losses are amplified in a falling market.
- Modest free float – the majority of UIL's shares are closely held.
- Relatively high concentration risk as the largest holding is c 20% of the fund on a look-through basis.

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Edison profile page

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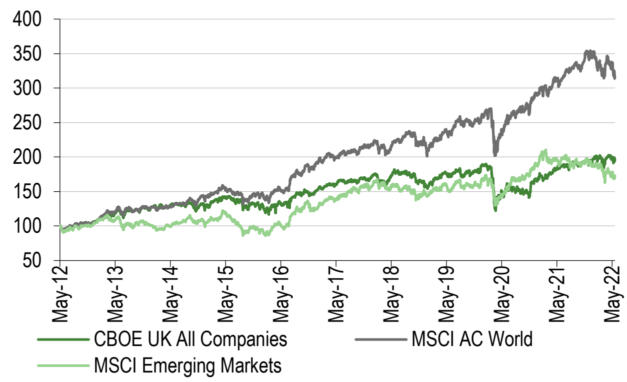
Market outlook: Volatility likely to continue

Global stock prices recovered strongly following the COVID-19 related sell-off in March 2020; however, a challenging macroeconomic backdrop means that, so far, 2022 has proved to be a tough period for global investors (Exhibit 1, left-hand side). They are having to come to terms with an extended period of high inflation, which has been exacerbated by the war in Ukraine and lockdowns in China due to its zero-COVID-19 policy, and interest rates are being hiked as central banks move away from their ultra-loose monetary policies in an effort to combat rising prices. Stock market volatility has been elevated as investors react to daily news headlines, and previously highly valued technology stocks have been under particular pressure from rising interest rates, which reduce the present value of their long-term future cash flows.

Forward P/E multiples are looking much more attractive compared with a few months ago (Exhibit 1, right-hand side) as, in aggregate, they are now trading at a discount rather than a premium to their 10-year averages. However, this improvement may prove to be illusory if consensus earnings expectations are overly optimistic. It is not hard to imagine the prospect of negative earnings estimate revisions as corporate margins come under pressure from rising input costs. With such an uncertain backdrop, investors are likely to be better served by employing a cautious approach, seeking high-quality companies with attractive fundamentals whose leadership teams can manage through the current difficult operating environment.

Exhibit 1: Market performance and valuation

Performance of indices (last 10 years, £)



Datastream indices forward P/E multiples (at 25 May 2022)

(x)	Last	High	Low	10-year average	Last as % of average
UK	11.1	15.7	9.4	13.4	83
Developed markets	14.7	20.8	10.7	15.7	93
Emerging markets	12.0	16.6	10.2	13.1	92
World	14.2	20.0	10.6	15.3	93

Source: Refinitiv, Edison Investment Research

The fund manager: Charles Jillings

The manager's view: Near-term macroeconomic challenges

There are a series of challenges for global economies, two of which are causing Jillings the greatest concern as he believes they are significant headwinds to growth. The first is China and its zero-COVID-19 policy, which is leading to shutdowns and disruption of the global supply chain and distribution channels. This will negatively affect global economies as manufacturing inputs are held up. The manager says that the outcome for a resolution is unclear as China's President Xi Jinping has invested a significant amount of political capital into the country's COVID-19 policy, so it is difficult to see how he would climb down. Jillings suggests that, ultimately, there are two possible outcomes: either China learns to live with COVID-19, and its economy grows, or lockdowns continue, the Chinese economy slows and this negatively affects other regions around the world.

The other major concern that the manager has is the war in Ukraine, which he considers to a be a brutal and ugly development. Jillings explains that the negative impacts on soft commodity markets will be significant, and product shortages will put real pressure on some societies. He believes that most of the western world should be relatively immune; however, the manager worries that poorer nations will experience food shortages.

Global inflation is rising partly because of the war in Ukraine; however, Jillings opines that a moderation in the pace of higher prices could occur faster than consensus expectations. His view is that inflation is being driven by supply shortages rather than excess demand and, given time, these distortions will be resolved. The manager compares 2021, which saw a spike in demand as COVID-19 lockdowns were lifted, with the 2022 supply disruptions; he believes that if the Russian invasion of Ukraine had not occurred, the global demand/supply balance would have resolved itself, and inflation would not have risen to current levels.

Jillings suggests that the world can deal with inflation and higher interest rates but acknowledges there is a risk that central banks overshoot, by raising interest rates too much and negatively affecting economic growth. In the meantime, people are being challenged by the rising cost of living. The manager believes that corporate earnings will come under pressure as margins will be squeezed due to companies being unable to always pass on higher input costs. Also, with many investors never having experienced inflationary periods, he expects high levels of risk aversion and volatility among all asset classes. However, Jillings highlights full employment as being a positive aspect of the current macroeconomic backdrop. He believes that a jobs shortage means there is a lower risk of recession and although this is likely to result in higher wage inflation the manager considers this to be ‘a better problem to have’.

Current portfolio positioning

As shown in Exhibit 2, at end-April 2022, UIL’s top 10 holdings made up 96.9% of the fund, which was the same concentration as a year earlier; nine positions were common to both periods. However, four of the top 10 holdings (Somers, Zeta Resources, Utilico Emerging Markets and Allectus Capital) are platforms with a portfolio of underlying holdings, so UIL’s fund concentration is not as high as these numbers would suggest. The total number of positions including the platforms is c 40 and c 16% of the fund is held in unlisted investments (excluding loans to listed companies and listed companies classed as level 3 investments, which are valued using inputs that are not based on observable market data). UIL’s largest position at c 38% of the fund is Somers, which has a portfolio of more than 10 investments. Its largest holding is Australia-listed Resimac, which is a leading non-bank lending and multi-channel distribution business in Australia and New Zealand. On a look-through basis, Resimac makes up c 20% of UIL’s portfolio, while the top 10 holdings make up 62.6%.

Exhibit 2: Top 10 holdings (as at 30 April 2022)

Company	Country*	Sector	Portfolio weight %	
			30 Apr 2022	30 Apr 2021**
Somers	Bermuda	Financial services investment holding company	37.9	38.4
Zeta Resources	Australia	Resources investment company	21.5	20.8
Utilico Emerging Markets Trust	UK	Emerging markets investment trust	14.7	14.8
ICM Mobility	UK	Digitisation of public and private transport	9.0	5.7
Allectus Capital	Bermuda	Fintech investment company	5.5	5.1
Resolute Mining	Australia	Gold mining	3.7	5.1
Nautilus Data Technologies	US	Data centre technology	1.6	N/A
Starpharma Holdings	Australia	Dendrimer products	1.2	2.4
AssetCo	UK	Asset and wealth management services	1.0	0.8
Orbital Corporation	Australia	Clean engine technologies/alt fuel systems	0.8	2.6
Top 10 (% of portfolio)			**96.9**	**96.9**

Source: UIL, Edison Investment Research. Note *Country of listing or domicile. **N/A where not in end-April 2021 top 10.

UIL's geographic breakdown is shown in Exhibit 3. At end-April 2022, the largest increase over the prior 12 months was a higher weighting to North America (+5.1pp); this was partly due to the strong share price performance of Copper Mountain Mining (held in the Zeta Resources platform). The largest decrease was the Middle East/Africa exposure (-4.7pp), which was primarily due to the performance of Resolute Mining.

Jillings reports that UIL's portfolio is long Australian and Canadian dollars, but due to currency hedges, its sterling exposure is neutral.

Exhibit 3: Portfolio geographic exposure on a look-through basis (% unless stated)

	Portfolio end-April 2022	Portfolio end-April 2021	Change (pp)
Australia	36.1	37.5	(1.4)
North America	17.6	12.5	5.1
UK	13.5	10.8	2.7
Asia	9.6	11.0	(1.4)
Europe (ex-UK)	6.7	4.1	2.6
Other - gold mining	5.3	7.0	(1.7)
Bermuda	4.5	5.5	(1.0)
Latin America	4.4	4.3	0.1
New Zealand	1.3	1.6	(0.3)
Middle East/Africa	1.0	5.7	(4.7)
	100.0	**100.0**	

Source: UIL, Edison Investment Research

There have been modest changes in UIL's sector exposure over the 12 months to end-April 2022 (Exhibit 4), with a higher technology weighting (+2.7pp) and a lower exposure to the gold mining sector (-1.7pp).

Exhibit 4: Portfolio sector exposure on a look-through basis (% unless stated)

	Portfolio end-April 2022	Portfolio end-April 2021	Change (pp)
Financial services	38.0	38.5	(0.5)
Resources	19.7	18.8	0.9
Technology	19.1	16.4	2.7
Gold mining	5.3	7.0	(1.7)
Ports	3.3	3.5	(0.2)
Electricity	2.3	2.8	(0.5)
Telecoms	1.7	1.7	0.0
Renewables	1.7	1.5	0.2
Oil & gas	1.4	1.8	(0.4)
Water	0.8	0.5	0.3
Airports	0.7	0.5	0.2
Infrastructure investments	0.7	0.7	0.0
Other	5.3	6.3	(1.0)
	100.0	**100.0**	

Source: UIL, Edison Investment Research

Jillings considers that UIL's larger investments are performing well in a tough operating environment. He highlights Resimac: this mortgage securitisation business recently released a very strong earnings report; its earnings per share was an all-time high and the manager expects the company to continue to grow its top and bottom line. However, Resimac's stock price did not react positively as smaller-cap financial service businesses are currently out of favour with investors.

Zeta Resources' largest holding is Canada-based Copper Mountain Mining, which has had some short-term negative impacts from poor weather (which happens periodically) and lower-grade ore due to increasing its capacity (which was expected). Jillings considers that Copper Mountain is a well-positioned mining business with a strong management team that has been paying down the company's debt. The firm should benefit from high demand for copper helped by an anticipated acceleration to energy security and green energy. Also, as and when China deals with COVID-19, the manager expects the Chinese authorities to ease constraints on its housing sector and boost infrastructure spend, which should drive increased demand for commodities.

Resolute Mining's share price has been disappointing as investors have been concerned about the company's high level of debt and its ability to pay this down while reinvesting in its asset base. However, the manager believes that Resolute is 'doing a good job' and expects the company to generate higher levels of cash flow, although the political environment in Mali, where the miner's largest asset is located, remains uncertain.

In our last review published in November 2021, we highlighted UIL's modest investment in the Novareum Blockchain Asset Fund. The manager says that blockchain assets have had a 'torrid time' experiencing higher levels of volatility than other investments. However, he says that this is unsurprising as any new asset class can be difficult to price.

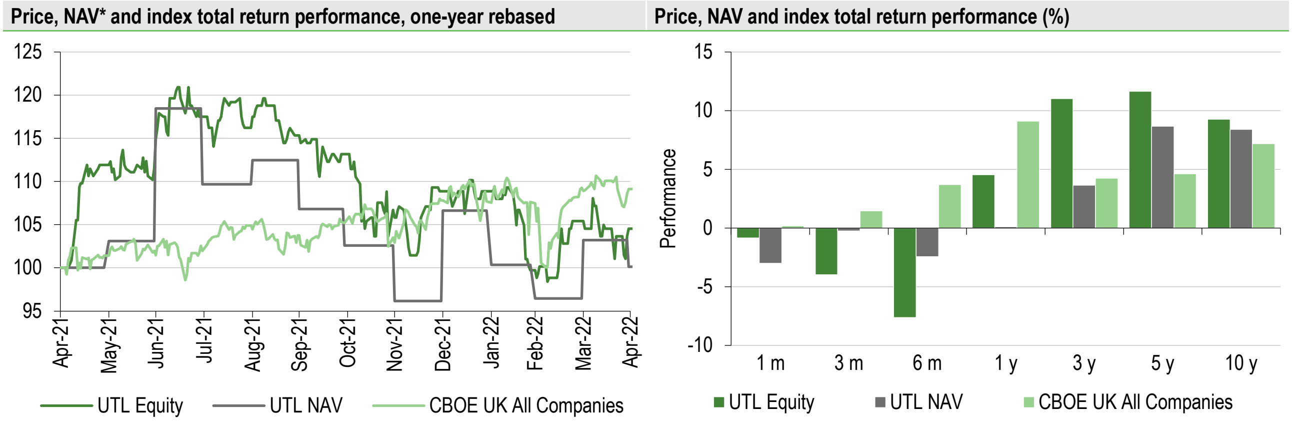
Performance: Mid/long-term record of outperformance

Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	CBOE UK All Companies (%)	MSCI AC World (%)	MSCI Emerging Markets (%)
30/04/18	3.9	(1.2)	8.1	7.8	14.7
30/04/19	22.0	37.7	2.5	11.6	0.7
30/04/20	(17.3)	(21.3)	(17.2)	(1.2)	(8.7)
30/04/21	58.3	41.4	25.3	33.4	35.9
30/04/22	4.5	0.1	9.1	4.7	(9.6)

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

Exhibit 6: Investment company performance to 30 April 2022



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. *Monthly NAVs.

In H122 (ending 31 December 2021), UIL's NAV and share price total returns of -9.9% and -5.3%, respectively, lagged the benchmark's +6.5% total return. However, it is important to remember the company's very strong relative performance in FY21, where its NAV and share price total returns of +50.9% and +57.0%, respectively, compared with the benchmark's +21.5% total return.

The primary reason for UIL's negative total return in H122 was the 23.2% fall in Resimac's share price, which contributed 8.2% of the 9.9% decline in UIL's NAV. On the positive side, Zeta Resources' shares appreciated by 16.2% in H122, driven by the +89.3% move in its second-largest holding, Panoramic Resources, due to a strengthening outlook for nickel prices. Resolute Mining continued to disappoint; its shares declined by 23.8% due to weak operating performance and concerns about the political outlook in Mali.

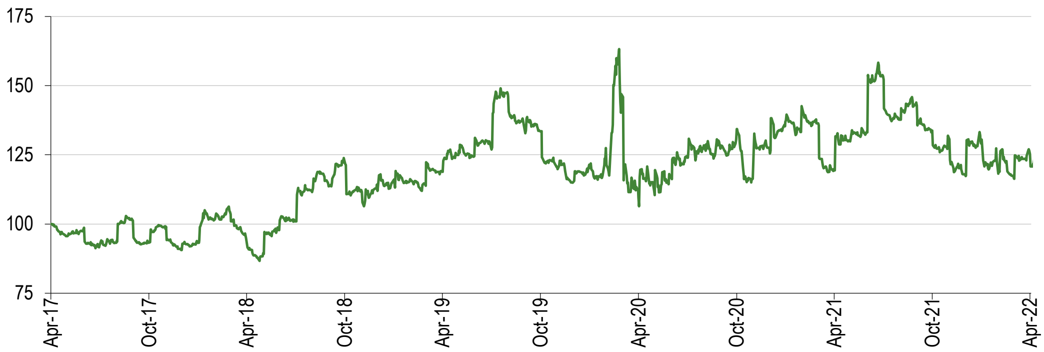
UIL's relative performance is shown in Exhibit 7. The company is ahead of the broad UK market over the last five and 10 years in NAV and share price terms and its share price has outperformed over the last three years. While UIL has lagged the performance of the UK market over the shorter periods shown, Jillings comments that while global stock markets have been volatile, he has a high degree of confidence in the portfolio companies' fundamentals and expects their share prices to perform relatively well in a more stable macroeconomic environment.

Exhibit 7: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to CBOE UK All Companies	(1.0)	(5.4)	(10.9)	(4.2)	20.9	38.4	21.5
NAV relative to CBOE UK All Companies	(3.2)	(1.7)	(5.9)	(8.3)	(1.7)	20.8	12.0
Price relative to MSCI AC World	2.7	(2.0)	(4.4)	(0.2)	(0.8)	4.6	(26.1)
NAV relative to MSCI AC World	0.5	1.8	0.9	(4.4)	(19.3)	(8.7)	(31.9)
Price relative to MSCI Emerging Markets	0.1	0.3	(1.6)	15.7	22.1	33.9	36.3
NAV relative to MSCI Emerging Markets	(2.1)	4.2	4.0	10.8	(0.7)	17.0	25.6

Source: Refinitiv, Edison Investment Research. Note: Data to end-April 2022. Geometric calculation.

Exhibit 8: NAV total return performance relative to CBOE UK All Cos Index over five years



Source: Refinitiv, Edison Investment Research

Peer group comparison

Exhibit 9: Selected peer group at 25 May 2022*

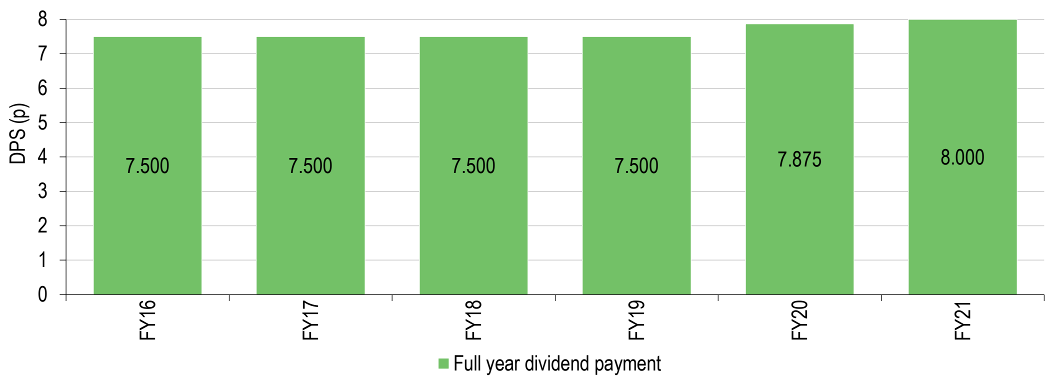
% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
UIL	181.1	(12.5)	(3.9)	28.6	107.7	(29.7)	2.0	Yes	165	3.7
Aberdeen Diversified Inc & Growth	305.1	7.3	12.4	12.6	60.2	(18.2)	0.6	No	102	5.7
BMO Managed Portfolio Growth	94.0	(13.0)	14.8	28.7	154.2	1.5	1.0	Yes	100	0.0
BMO Managed Portfolio Income	63.2	(2.3)	14.4	21.6	120.4	(0.7)	1.1	Yes	107	4.8
Caledonia Investments	1,987.0	28.0	47.6	70.0	232.9	(28.5)	1.0	No	100	1.8
Capital Gearing	1,151.3	7.3	24.3	35.3	85.1	2.3	0.6	No	100	0.9
Hansa Investment Company 'A'	148.4	(4.7)	10.3	21.9	71.7	(38.2)	1.1	No	100	1.7
JPMorgan Multi-Asset Growth & Inc	80.6	(1.7)	11.0			(0.1)	1.1	No	100	4.0
JZ Capital Partners	129.8	12.7	(56.6)	(57.2)	(31.8)	(49.8)	6.1	Yes	105	0.0
Livermore Investments	80.7	26.9	16.6	30.4	201.7	(23.3)	1.8	No	100	6.7
Miton Global Opportunities	85.4	(3.8)	22.6	32.8	147.1	(0.9)	1.3	No	100	0.0
Momentum Multi-Asset Value Trust	55.9	(1.2)	15.3	25.3	129.9	(0.8)	1.6	No	111	4.0
New Star Investment Trust	90.2	3.0	19.5	32.2	92.8	(31.0)	0.9	No	100	1.1
Personal Assets	1,810.0	2.9	21.7	26.2	66.1	1.0	0.7	No	100	1.2
RIT Capital Partners	3,721.0	2.4	46.5	63.6	163.9	(10.1)	0.7	Yes	112	0.0
Ruffer Investment Company	949.9	6.3	39.3	35.3	80.2	4.0	1.1	No	100	1.0
Tetragon Financial	730.0	26.6	31.3	69.0	264.7	(64.3)	2.1	Yes	100	4.3
Simple average	**686.1**	**5.0**	**16.9**	**29.8**	**121.7**	**(16.9)**	**1.5**		**106**	**2.4**
Fund rank in sector (17 funds)	**8**	**16**	**16**	**10**	**9**	**13**	**15**		**1**	**7**

Source: Morningstar, Edison Investment Research. Note: *Performance to 24 May 2022 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

UIL is a member of the AIC Flexible Investment sector, an eclectic mix of 24 funds that have a wide variety of investment mandates. In Exhibit 9, we show the largest 17 companies with market caps greater than £50m that have been trading for more than three years. UIL's NAV total returns are below average over the periods shown. The company has one of the widest discounts in the selected peer group, the third highest ongoing charge and the highest level of gearing by a wide margin. UIL offers an above-average dividend yield that is currently 1.4pp above the mean of the selected peer group.

Dividends: Regular and fully covered by income

Exhibit 10: Dividend history since FY16

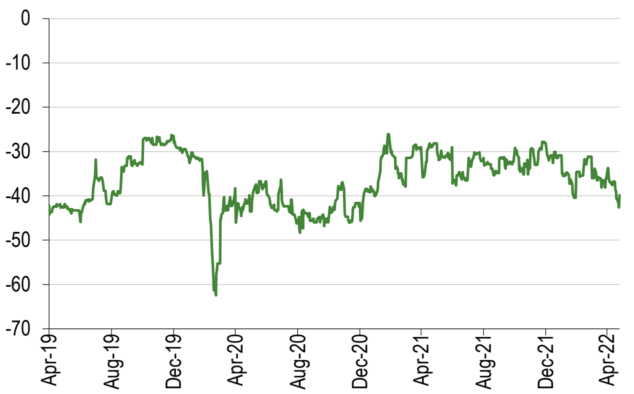


Source: Bloomberg, Edison Investment Research

UIL pays regular quarterly dividends in December, March, June and September. The board aims to at least maintain the total annual distribution, using revenue reserves as required (it also has the flexibility to pay dividends out of capital). In H122, UIL's revenue earnings per share of 3.40p were 26.6% lower than 4.63p in H121, which was partly due to lower receipts from loans to platform companies Somers and Zeta Resources as they were significantly reduced during the period. So far in FY22, two interim dividends of 2.0p per share (c 0.9x covered) have been paid, which are flat year-on-year. At the end of H122, UIL's revenue reserves were equivalent to 14.34p per share, which is c 1.8x the last annual distribution. Barring unforeseen circumstances, the board expects to continue to pay quarterly dividends of 2.0p per share for the balance of FY22. Jillings anticipates that UIL's income will rise in H222 ensuring that the annual dividend is fully covered. Based on its current share price, UIL offers a 3.7% dividend yield.

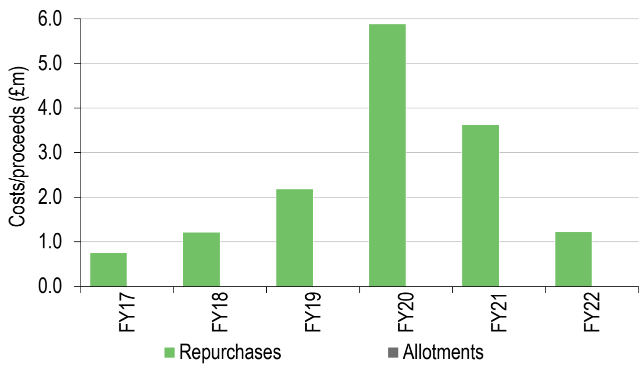
Valuation: Board aspires to a 20% discount

Exhibit 11: Discount over three years



Source: Refinitiv, Edison Investment Research. Note: Based on monthly NAVs.

Exhibit 12: Buybacks and issuance



Source: Morningstar, Edison Investment Research

UIL's shares are currently trading at a 29.7% discount to cum-income NAV, which is narrower than the 33.2% to 37.9% range of average discounts over the last one, three, five and 10 years (based on monthly NAVs). Jillings is frustrated about the company's continued wide discount; however, he acknowledges that it is unlikely to narrow in the near term given the current widespread lack of investor confidence. The manager is hopeful that, over time, the discount can narrow to 20%, helped by share buybacks and continued marketing to existing and potential investors. In H122, c 0.3m shares (c 0.4% of the share base) were repurchased at an average discount of 28.8%.

Fund profile: Seeking undervalued assets

UIL began trading on 20 June 2007 as the successor vehicle to Utilico Investment Trust, which was launched in August 2003 (for more information about the company's history, please see our December 2019 initiation report). It is a Bermuda-registered company listed on both the Specialist Fund Segment of the London Stock Exchange (which does not have any free float requirements) and the Bermuda Stock Exchange. UIL is managed by ICM Investment Management and ICM (collectively referred to as ICM), which has c £3bn of assets directly under management and is responsible for a further c £24bn of assets in subsidiary investments. ICM has more than 70 staff based in offices in Bermuda, Cape Town, Dublin, London, Seoul, Singapore, Sydney, Vancouver and Wellington. Manager Charles Jillings and the rest of the ICM investment team aim to identify and invest in compelling long-term investments across the globe, where their forecast underlying values are not reflected in their current share prices. UIL may invest in shares, bonds, convertibles and other types of securities, including non-investment-grade bonds. Unlisted securities of up to 25% of gross assets at the time of investment are also permitted. Derivative instruments have been used for investment purposes and efficient portfolio management, and at times currency exposure may be hedged. UIL's sector and geographic exposure is unrestricted, but at the time of investment, a single investment may not exceed 30% of gross assets (except for platforms, which may not exceed 50%). The company employs a levered strategy through ZDP shares and a limited amount of bank debt (see Gearing section on page 9). UIL's ZDP shares are listed on the Standard Segment of the Main Market of the London Stock Exchange. At end-April 2022, net gearing (ZDP shares plus borrowings) was 64.5%, which is below the board's targeted maximum of 100%. UIL's performance is benchmarked against a broad UK equity market index. Data from the company show that from inception to the end of April 2022, its NAV total return compounded at a rate of 12.1% pa.

Investment process: Long-term perspective

ICM's investment teams are led by Duncan Saville and Charles Jillings. The other senior members of the team are: Jacqueline Broers, Jonathan Groocock and Mark Lebbell, focused respectively on the telecommunications, utilities and infrastructure sectors; fixed income specialist Gavin Blessing; Dugald Morrison, who covers resources; Jason Cheong and Matt Gould, who focus on technology and emerging technologies; and Alasdair Younie, covering financial services. UIL seeks to generate long-term capital growth by investing in undervalued assets across the globe. Businesses may be under-priced for a variety of reasons including technological change, competition, an inefficient balance sheet, an underperforming management team or a lack of investor interest. Around 80% of UIL's portfolio is invested in four ICM-managed funds, referred to as 'platforms': Somers (financial services), Zeta Resources (natural resources), Utilico Emerging Markets Trust (emerging markets utilities and infrastructure) and Allectus Capital (technology, with a particular focus on fintech). Jillings suggests this approach offers the following benefits:

- **Focused strategy** – each platform has a dedicated mandate and the strategy has an objective of finding and implementing attractive investments within these.
- **Dedicated research analysts** – for each platform the analysts are focused on understanding existing portfolio businesses and identifying compelling investments.

- **Financial support** – ability to draw on UIL's support and financial backing.
- **Deep knowledge** – utilising ICM's knowledge across many jurisdictions to optimise investment opportunities and undertake corporate finance-led transactions.

The remaining c 20% of the fund is in direct holdings including Australian gold miner Resolute Mining. The manager stresses the importance of supporting investee companies with their capital requirements and says UIL may often be among their largest shareholders, maintaining regular contact with them. There is no limit as to how much of a company UIL can own, and it may sometimes take legal or management control of a firm.

UIL's approach to ESG

ICM is committed to a strong environmental, social and governance (ESG) framework and is taking steps to strengthen its policy and public profile. The company is a signatory of the United Nations-supported Principles for Responsible Investment (PRI). The PRI is an international organisation that works to promote the incorporation of ESG factors into investment decision-making. UIL's board believes it is in shareholders' best interests to consider ESG factors when selecting and retaining investments. In conjunction with assessing the financial, macroeconomic and political drivers when making and monitoring an investment, the manager embeds ESG opportunities and risks into the firm's investment process. Companies are scanned using a rigorous in-depth framework. However, the decision on whether to make an investment is not made on ESG grounds alone. Factors are incorporated into the process in three main ways:

- Understanding – in-depth analysis of the important business issues faced by potential and current holdings as well as a deep understanding of the industries in which they operate.
- Integration – incorporation of the understanding into full company analysis to ensure there is a clear and complete picture of the investment opportunity.
- Engagement – regular communication with investee companies, both virtually and on location, where possible, to discuss and identify any gaps in their ESG policies and to further develop and improve their ESG disclosure and implementation.

The board believes that an analysis of ESG factors helps to enhance the understanding of a company, as these factors affect their business models and their long-term ability to generate sustainable returns. It also enables UIL's investment team to fully question a company's investment potential from a variety of perspectives.

Gearing: ZDP shares and bank debt

UIL follows a levered strategy using ZDP shares and bank debt. It has a £50m senior secured multicurrency revolving facility with Scotiabank Europe, which expires at the end of September 2022. The board stated its commitment to reduce the company's debt and gearing in the FY14 annual report and it has fallen from more than 150% at 30 June 2013 to 60.7% at 31 December 2021. At the end of April 2022, net gearing was 64.5%, which is well below the board's 100% maximum target.

UIL has an exemplary track record of redeeming its 2012, 2014, 2016, 2018 and 2020 ZDP shares; the next redemption date is October 2022. The company's capital structure provides holders with attractive yields and a range of maturity dates, which enables it to realise a smaller number of investments in advance of each redemption date, so is therefore less disruptive to the portfolio. Exhibit 13 shows UIL's current four tranches of ZDP shares spread over seven years; they are issued by UIL Finance, a wholly owned subsidiary of UIL. Over time, the company's capital growth is driving higher ZDP cover, and its financing costs have declined meaningfully in recent years from an average rate of 6.3% at the end of June 2013 to 4.5% at the end of December 2021.

Exhibit 13: ZDP shares (at 30 April 2022)

	2022	2024	2026	2028
Accrued capital entitlement (p)	142.50	123.16	121.60	105.86
Share price (p)	143.50	122.50	116.00	100.00
Premium/(discount) to NAV (%)	0.7	(0.5)	(4.6)	(5.5)
ZDP cover* (x)	4.67	3.35	2.67	2.21
Yield to redemption* (%)	4.9	5.0	6.1	6.7
ZDP redemption value (p)	146.99	138.35	151.50	152.29
Shares in issue (m)	35.6	30.0	25.0	25.0
Ticker	UTLF	UTLG	UTLH	UTLI

Source: UIL, Edison Investment Research. Note: *Based on final redemption values.

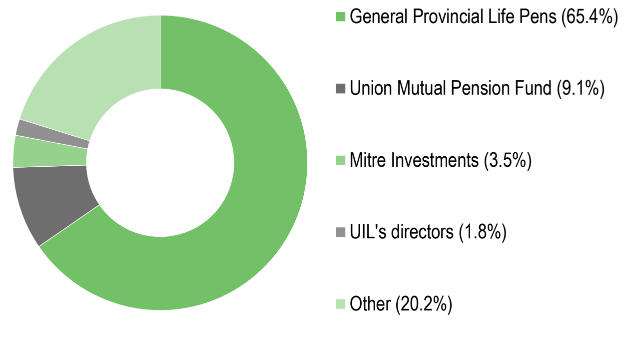
Fees and charges

ICM receives an annual management fee of 0.5% pa of UIL's total assets less current liabilities (excluding borrowings and excluding the value of all holdings in companies managed or advised by ICM or its subsidiaries from which it receives a management fee), along with 45% of ICM's costs of providing company secretarial services. ICM is entitled to a 15% performance fee on NAV returns over benchmark at the higher of 5.0% or the UK gilt five- to 10-year index post-tax yield plus RPIX inflation. The NAV must exceed the high-water mark NAV from when the performance fee was last paid (adjusted for capital events and dividends paid) and the fee is capped at 2.5% of financial year-end NAV (adjusted for capital events and dividends paid). It is also reduced to take into account any performance fees paid to ICM by companies where UIL is an investor. In H122, UIL's ongoing charges (excluding performance fees) were 2.0%, which were in line with H121. Including performance fees, ongoing charges were 4.2% (H121: 2.9%). UIL's ongoing charges appear high compared with other investment companies as the expense calculation is based on a percentage of average net assets (after the deduction of the ZDP shares).

Capital structure

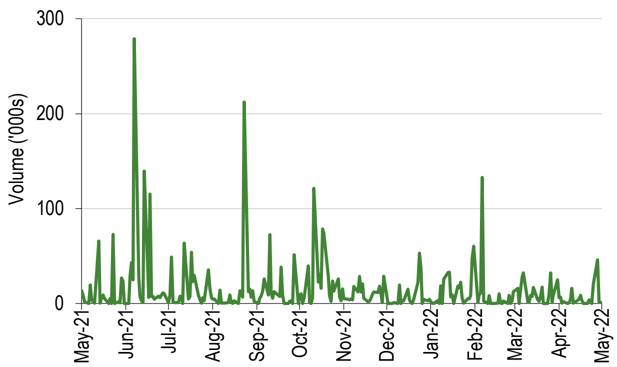
UIL has 83.8m ordinary shares outstanding, the majority are of which are held by companies associated with ICM manager Duncan Saville or UIL's directors; hence, the free float is c 20%. Over the last 12 months, the company had an average daily trading volume of c 17k shares.

Exhibit 14: Major shareholders



Source: UIL, as at 30 April 2022

Exhibit 15: Average daily volume



Source: Refinitiv. Note: 12 months to 25 May 2022.

The board

Collectively, UIL's board has experience in a wide range of financial services and the law. David Shillson is considered to be a non-independent director as he is a senior partner of a law firm that has acted for associates of UIL and ICM from time to time. In FY22, the remuneration is £47,600 for the chairman; £45,500 for the chairman of the audit and risk committee; and £35,200 for the other three directors.

Exhibit 16: UIL's board of directors

Board member	Date of appointment	Remuneration in FY22	Current shareholdings
Peter Burrows (chair since November 2015)	September 2011	£47,600	909,617
Alison Hill	November 2015	£35,200	94,930
Christopher Samuel	November 2015	£35,200	217,951
David Shillson	November 2015	£35,200	137,488
Stuart Bridges (chair of the audit & risk committee)	October 2019	£45,500	154,147

Source: UIL

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