EDISON

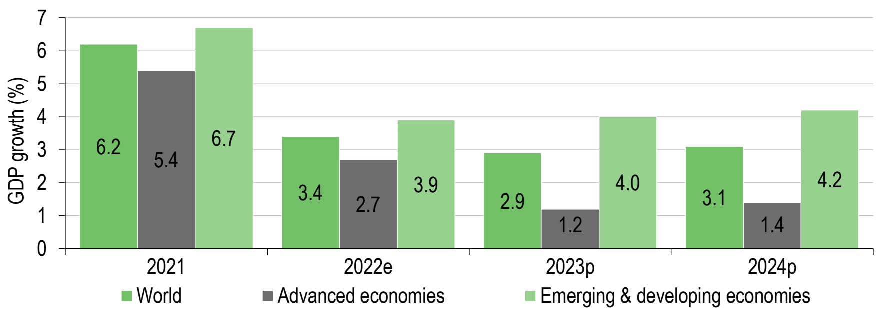
UIL

Confident in portfolio companies' strong prospects

Investment companies
Global value

UIL Limited (UIL) is managed by Charles Jillings at deep-value investor ICM. The portfolio reflects his three medium-term 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. Despite a difficult macroeconomic backdrop, characterised by the war in Ukraine and central banks raising interest rates to combat higher inflation, the manager has a high degree of confidence in the prospects for UIL's investee companies. He believes that they are well placed to trade through the current uncertain period and emerge the other side as even stronger businesses.

Higher growth potential in emerging and developing economies



Source: International Monetary Fund World Economic Outlook January 2023, Edison Investment Research. Note: e is estimated, p is projected.

The analyst's view

UIL is unique in that it offers investors a differentiated portfolio structure compared with other global funds; it has c 45% weighting in financial services businesses and a c 40% allocation to Australian companies. Holdings are a mix of platform companies (collective investment vehicles, c 70% of the fund) and direct investments (c 30%). UIL suffered a period of weak relative performance in 2022, as investor preference shifted away from growth stocks in a rising interest rate environment; unfortunately, this has negatively affected the company's longer-term record. However, patience should be rewarded as the manager's approach of buying undervalued niche assets has proved to be a successful strategy. Data from UIL show that since the fund's inception in 2003 until the end of H123, the company's NAV total return has compounded at an annual rate of 8.9%, which compares with an annual 7.3% total return for the broad UK stock market.

Valuation: More than meets the eye

UIL's headline share price discount to cum-income net asset value (NAV) of 37.3% does not tell the whole story, as some of its platform companies are also trading at a discount, thereby affording UIL's shareholders a 'double discount'. For example, at end-February 2023, Zeta Resources (15.1% of the fund) was trading at a 24.6% discount to net tangible assets and Utilico Emerging Markets Trust (12.2% of the fund) was trading at a 13.7% discount to NAV.

9 March 2023

Price		**142.0p**
Market cap		**£119m**
Total assets		**£336m**
NAV*		226.3p
Discount to NAV		37.3%

*Including income. At 6 March 2023.

Yield		5.6%
Ordinary shares in issue		83.8m
Code/ISIN		UTL/BMG917071026
Primary exchange		LSE
AIC sector		Flexible Investment
Financial year end		30 June
52-week high/low	246.0p	142.0p
NAV* high/low	386.4p	224.8p

*Including income

Net gearing*	77.2%

*Including zero discount preference (ZDP) shares. At 28 February 2023.

Fund objective

UIL's objective is to maximise shareholder returns by identifying and investing in investments worldwide where the estimated underlying value is not fully recognised. The company's investment performance is benchmarked against the broad UK equity market. UIL is a member of the AIC flexible investment sector.

Bull points

- High-conviction portfolio of undervalued assets.
- 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 20% free float – the majority of UIL's shares are closely held.
- Relatively high concentration risk as the largest holding is c 19% of the fund on a look-through basis.

Analyst

Mel Jenner +44 (0)20 3077 5700
investmenttrusts@edisongroup.com

Edison profile page

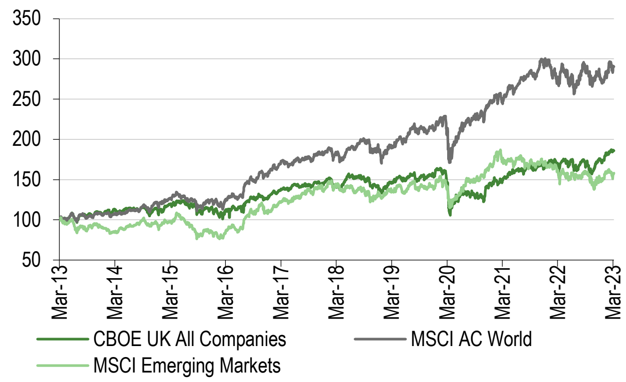
UIL is a research client of Edison Investment Research Limited

Market outlook: A longer-term perspective is warranted

Many investors will be pleased to draw a line under a difficult 2022, where in the United States (the largest global stock market), the bellwether S&P 500 Index declined by c 20% and the technology heavy Nasdaq fared even worse, falling by around a third. However, in 2023, the macroeconomic backdrop remains very uncertain. Corporate earnings are being negatively affected by higher interest rates and rising input costs, while consumers are struggling with an increased cost of living. The war in Ukraine continues to place upward pressure on energy and food prices and is dampening investor sentiment. China's U-turn on its zero-COVID policy is a positive development for global growth, but multinational manufacturers have been reducing their reliance on China, by bringing their operations closer to home, which can increase costs, thereby adding to inflation pressures. Central banks in the developed world are actively raising interest rates to combat higher prices, which increases the risk of recessions. In an uncertain world, investors are likely to be better served by adopting a longer-term perspective. Focusing on high-quality companies that are trading on reasonable valuations should prove beneficial for when the macroeconomic clouds clear, given that over the long term, share prices are driven by company fundamentals rather than stock market 'noise'.

Exhibit 1: Market performance and valuation

Performance of indices (last 10 years, £)



Datastream indices forward P/E multiples (at 7 March 2023)

(x)	Last	High	Low	10-year average	Last as % of average
UK	11.1	15.7	9.4	13.5	82
Developed markets	15.8	20.7	12.7	15.9	99
Emerging markets	10.5	16.6	10.5	13.1	80
World	14.9	19.9	12.5	15.4	96

Source: Refinitiv, Edison Investment Research

The fund manager: Charles Jillings

The manager's view: Central banks will tame higher inflation

Jillings says that inflation has been exacerbated by the war in Ukraine, especially for energy and food prices, while a tight labour market is also adding to cost pressures. He comments that central banks face the challenge of bringing down inflation when there is full employment. The manager suggests that if employment data remain firm, inflation will remain elevated and central banks will have to keep interest rates higher for longer. Going into 2023 Jillings thought that inflation would moderate by the middle of the year and then roll over in the third or fourth quarter; this view has now been pushed out by a quarter. He believes that central banks will prevail, inflation will come down and within two to three years, will be behind us.

The manager explains that China's zero-COVID approach could not square up with the country's economic growth aspirations, and there were protests from all quarters of the country against the strict policy. He says that the speed of the policy pivot was surprising, as was the move to complete tolerance of COVID. Although individual fatalities are tragic, herd immunity developed in a month once the Chinese economy had reopened, and activity is now back to more normal levels. Jillings reports that Chinese metro usage is now above pre-pandemic levels; people have returned to work and the government is focused on wealth creation. While there is also a focus on wealth redistribution, the manager suggests that the Chinese authorities have the levers required to get the domestic economy growing again, including interest rate and housing market policies. Chinese GDP growth is targeted at 5% for 2023, so with weakness in Q123 due to lockdowns, activity should accelerate through the balance of this year.

Jillings says that as China's economy reopens, there should be a step-up in demand for commodities such as copper and iron ore, and copper production is currently being affected by disruptions in Peru. In the medium term, he believes that there should also be support for commodity prices and producers due to a multi-year period of underinvestment.

The manager comments that, in general, investee companies are experiencing strong top-line growth. During the global pandemic company margins expanded but are now being squeezed by higher input prices. Jillings says that the corporate response will be to tackle costs and with labour being a large part of these, he expects unemployment to rise. The manager opines that as and when there is no longer full employment, inflation should moderate, and central banks will have achieved their desired outcome.

Jillings highlights the devastating war in Ukraine. He believes that at some point both parties will find that support for, and the ability to continue, the war will weaken, so peace negotiations will happen. The manager suggests that there could be a series of false starts, but there has been too much invested in the war by both sides to not find a resolution. He believes that the conflict could last a few more months, but neither Russia nor Ukraine will likely want to be at war throughout another winter. Jillings says that there are neutral countries that could broker negotiations, but while the conflict continues it is very disruptive to asset markets.

Current portfolio positioning

At end-February 2023, UIL's top 10 holdings made up 91.4% of the fund, which was a lower concentration compared with 96.1% a year earlier; five positions were common to both periods. However, the four top holdings (Somers, Zeta Resources, Utilico Emerging Markets Trust and Allectus Capital) are platforms with a portfolio of underlying investments, so UIL's fund is more diversified than these numbers suggest.

Exhibit 2: Top 10 holdings (at 28 February 2023)

Company	Country*	Sector	Portfolio weight %	
			28 Feb 2023	28 Feb 2022**
Somers	Bermuda	Financial services investment holding co	37.5	39.0
Zeta Resources	Australia	Resources investment company	15.1	20.0
Utilico Emerging Markets Trust	UK	Emerging markets investment trust	12.2	15.2
Allectus Capital	Bermuda	Fintech investment company	7.1	5.1
Resimac Group	Australia	Financial services	6.3	N/A
West Hamilton Holdings	Bermuda	Property	4.5	N/A
The Market Herald	Australia	Financial services	4.0	N/A
Allectus Quantum Holdings	UK	Investment holding company	1.7	N/A
Littlepay	UK	Payments technology	1.6	N/A
AssetCo	UK	Asset and wealth management services	1.4	1.1
Top 10 (% of portfolio)			**91.4**	**96.1**

Source: UIL, Edison Investment Research. Note *Country of listing or domicile. **N/A where not in end-February 2022 top 10.

On a look-through basis, at end-February 2023, UIL's top 10 positions made up 61.7% of the fund, with the top 20 at 75.3% and the top 50 at 88.2%. The three largest holdings were: Resimac (18.8%, held by UIL and Somers); Waverton Investment Management (12.7%, Somers); and Alliance Mining Commodities (4.8%, Zeta Resources).

The total number of positions including the platforms is c 35 and c 11% 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).

Following board approval, on 11 October 2022, UIL sold its holdings in unlisted ICM Mobility Group and Snapper Services (UK) for £45.6m to Somers. The consideration for the sale was satisfied through the transfer to UIL of Somers' holdings in West Hamilton Holdings (a Bermuda property holding company, listed on the Bermuda Stock Exchange), BNK Banking Corporation (an Australian banking group, listed on the Australian Stock Exchange) and WT Financial Group (an Australian financial advisory group, listed on the Australian Stock Exchange), which had an aggregate fair value of £23.3m; a cash payment of £13.6m; and a loan of £8.7m to UIL repayable by Somers. The cash payment contributed to UIL's repayment of the 2022 ZDPs on 31 October 2022.

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

	Portfolio end-February 2023	Portfolio end-February 2022*	Change (pp)
Australia	39.4	33.5	5.9
UK	16.0	14.0	2.0
Bermuda	9.0	4.3	4.7
Asia	7.5	11.4	(3.9)
Europe (ex-UK)	6.5	6.7	(0.2)
Middle East/Africa	6.4	1.2	5.2
US	5.9	N/S	N/A
Canada	4.7	N/S	N/A
Latin America	3.8	4.2	(0.4)
New Zealand	0.8	1.4	(0.6)
Total adjusted for cash	**100.0**	**100.0**	

Source: UIL, Edison Investment Research. Note: N/S is not stated separately. *At end-February 2022, North America made up 18.8% of the fund, with 4.5% classified as other – gold mining.

Exhibit 3 shows UIL's geographic breakdown. It has a differentiated geographic exposure compared with other global funds, with Australia making up c 40% of the portfolio followed by c 15% in the UK. Year-on-year comparisons are not straightforward as classifications have changed during the 12 months ending 28 February 2023. The United States and Canada are now disclosed separately, whereas at 28 February 2022, North America made up 18.8% of the fund, with 4.5% classified as other – gold mining. Some of the other – gold mining assets were sold with the balance now classified within Middle East/Africa.

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

	Portfolio end-February 2023	Portfolio end-February 2022	Change (pp)
Financial services	45.3	39.0	6.3
Technology	20.8	18.5	2.3
Resources	14.1	18.0	(3.9)
Gold mining	2.7	4.5	(1.8)
Ports	2.5	3.4	(0.9)
Electricity	2.2	2.1	0.1
Renewables	1.6	1.2	0.4
Telecoms	1.1	1.9	(0.8)
Oil & gas	1.0	1.7	(0.7)
Water	0.9	0.7	0.2
Airports	0.9	0.8	0.1
Infrastructure investments	0.5	1.0	(0.5)
Other	6.4	7.2	(0.8)
	100.0	**100.0**	

Source: UIL, Edison Investment Research

Over the 12 months to end-February 2023, there is a notable increase in UIL's financial services exposure (+6.3pp). The largest decrease is a 3.9pp decline in the fund's allocation to resources.

Some of UIL's top 10 holdings are recent additions to the list:

- **West Hamilton Holdings** is a Bermuda-listed property investment and management company with commercial and residential property assets in Hamilton, Bermuda.

- **The Market Herald** is an Australia-listed, multi-platform publisher and media company. It operates one of the largest digital business communities in Australia and Canada and, in September 2022, it acquired the online classifieds business, GCA Group, which has a portfolio of complementary brands: Gumtree, Carsguide and Autotrader. These three businesses reach approximately one in three Australians per month and have significant further potential for monetisation. Jillings believes that there should be considerable upside from cross-selling opportunities between the company's business segments and that the firm is undervalued.
- **Allectus Quantum Holdings** is an investment holding company set up to invest in Diraq, a quantum computing company seeking to develop a full-stack quantum computer based on electron spins in silicon. Diraq is building a value chain to open the transformational applications of quantum computing that require many millions to billions of qubits.
- **Littlepay** provides fare pay systems to transport operators. Its technology enables travellers to tap to pay using credit cards such as Mastercard and Visa. The availability of a simple contactless payment method is linked to increased ridership and more frequent travel using public transit. Littlepay was founded in 2017, but already has over 250 customers globally and over 20,000 installed payment readers.

Performance: Tough period over the last 12 months

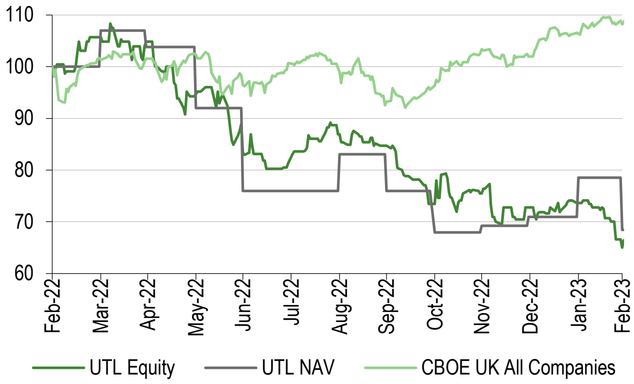
Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	CBOE UK All Companies (%)	MSCI AC World (%)	MSCI Emerging Markets (%)
28/02/19	10.2	15.9	1.6	3.3	(6.3)
29/02/20	22.9	2.4	(2.1)	8.8	2.6
28/02/21	33.3	20.8	2.8	19.6	24.7
28/02/22	(9.2)	(3.3)	16.7	12.8	(6.6)
28/02/23	(35.0)	(31.6)	8.2	2.2	(5.7)

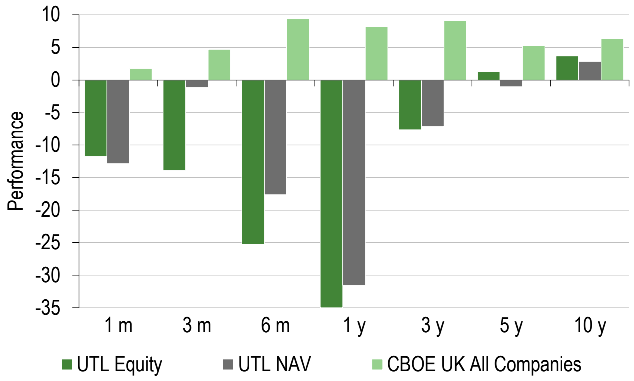
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

Exhibit 6: Investment company performance to 28 February 2023

Price, NAV* and index total return performance, one-year rebased



Price, NAV and index total return performance (%)



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

In H123 (ending 31 December 2022), UIL's NAV and share price total returns of -6.5% and -12.6% respectively trailed the broad UK market index's +5.1% total return. Part of the underperformance is due to the market index having a double-digit weighting in the energy sector, which performed very well in 2022, whereas UIL has no energy exposure.

Somers' valuation declined by 14.8% in H123, (+10.8% including the August 2022 $4.55p per share dividend payment). Resimac's share price declined by 10.9% due to net interest margin compression caused by its securitising funding model and higher interest rates. Net interest margins should rise when interest rates decline. Despite the current headwind, Resimac is generating strong cash flow and profits and the stock is trading on a mid-single digit P/E multiple.

Waverton Asset Management is performing well, ahead of budget, in a challenging operating environment and its assets under management are growing despite volatile markets.

Zeta Resources' share price declined by 15.2%. China's zero-COVID policy contributed to lower global growth while higher costs squeezed company margins. Also, Zeta's discount to NAV widened from 15.3% to 22.8% over the course of H123. Its best performing investment was Horizon Gold (+19.2%), but this was more than offset by declines in GME Resources (-14.0%) and Panoramic Resources (-10.3%).

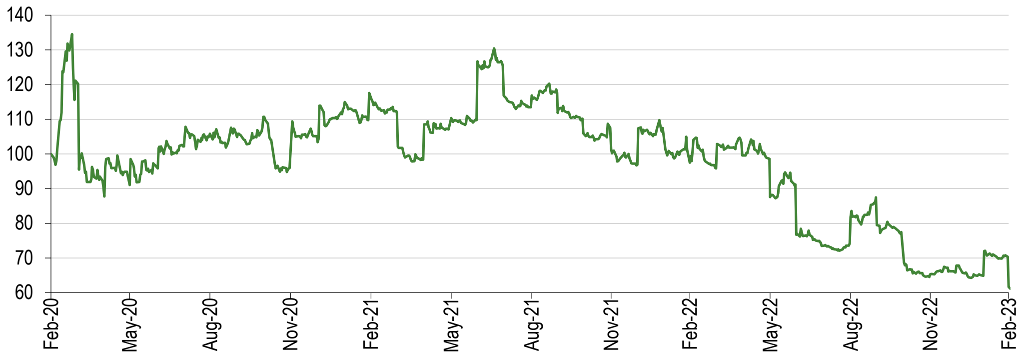
Exhibit 7: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to CBOE UK All Companies	(13.2)	(17.7)	(31.6)	(39.9)	(39.3)	(17.4)	(22.3)
NAV relative to CBOE UK All Companies	(14.4)	(5.6)	(24.7)	(36.8)	(38.4)	(26.5)	(28.1)
Price relative to MSCI AC World	(10.7)	(12.5)	(24.8)	(36.4)	(42.9)	(31.1)	(49.4)
NAV relative to MSCI AC World	(11.8)	0.4	(17.2)	(33.0)	(42.0)	(38.7)	(53.2)
Price relative to MSCI Emerging Markets	(7.2)	(12.0)	(20.5)	(31.1)	(28.3)	1.1	(5.2)
NAV relative to MSCI Emerging Markets	(8.4)	1.0	(12.4)	(27.4)	(27.2)	(10.1)	(12.3)

Source: Refinitiv, Edison Investment Research. Note: Data to end-February 2023. Geometric calculation.

Jillings comments that UIL's performance has been disappointing as despite many of its investee businesses making real progress, company valuations have declined. UIL has a meaningful exposure to financial services and the manager says that the shares of non-bank financial services companies have been particularly weak. UIL also holds a considerable number of growth companies, which have been out of favour with investors in a rising interest rate environment. Jillings highlights the high levels of market volatility, saying that individual stocks can rise or fall by 10%, commodities by 5%, and currencies by 1–2%, in a single day.

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



Source: Refinitiv, Edison Investment Research

Peer group comparison

The AIC Flexible Investment sector is an eclectic mix of 25 different sized funds with a wide variety of investment mandates. In Exhibit 9, we show the largest 16 companies with market caps greater than £50m that have been trading for more than 10 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 by far the highest level of gearing (most of the funds are ungeared). UIL offers an attractive dividend yield, which is currently 3.2pp above the average of the selected peer group.

Exhibit 9: Selected peer group at 7 March 2023*

% 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	119.1	(34.5)	(23.4)	(8.7)	26.3	(37.3)	2.9	Yes	182	5.6
Aberdeen Diversified Inc & Growth	270.4	0.2	6.4	12.3	24.9	(24.0)	0.6	No	100	6.4
Caledonia Investments	1,967.9	12.1	48.0	68.0	184.9	(27.9)	0.9	No	100	1.8
Capital Gearing	1,277.7	(0.4)	17.2	33.3	60.0	(1.2)	0.5	No	100	1.0
CT Global Managed Portfolio Growth	90.6	(1.5)	18.4	21.4	99.3	(2.0)	1.0	No	100	0.0
CT Global Managed Portfolio Inc	62.1	4.0	15.8	19.9	72.0	(0.7)	1.0	Yes	106	5.4
Global Opportunities Trust	95.1	15.5	33.3	24.1	109.1	(11.2)	1.0	No	100	1.5
Hansa Investment Company class A	141.2	4.9	21.9	23.0	71.0	(44.2)	1.1	No	100	1.8
JZ Capital Partners	129.8	10.1	(26.6)	(51.4)	(37.6)	(52.4)	3.5	Yes	100	0.0
Livermore Investments	78.5	(17.2)	1.0	2.0	71.1	(35.0)	5.0	No	100	7.0
MIGO Opportunities Trust	83.4	(1.3)	32.9	22.0	114.7	(0.8)	1.3	No	100	0.1
New Star Investment Trust	87.4	(1.8)	18.0	22.0	74.0	(31.5)	0.9	No	100	1.1
Personal Assets	1,858.0	(1.6)	16.9	28.9	53.1	(0.0)	0.7	No	100	1.2
RIT Capital Partners	3,108.4	(8.4)	32.4	43.1	121.4	(18.2)	0.9	Yes	109	0.0
Ruffer Investment Company	1,147.0	3.8	39.5	39.4	60.9	1.0	1.1	No	100	0.9
Tetragon Financial	764.8	16.2	43.0	85.2	244.5	(65.3)	2.3	Yes	100	4.2
Simple average	**705.1**	**0.0**	**18.4**	**24.0**	**84.4**	**(21.9)**	**1.5**		**106**	**2.4**
Fund rank in sector (16 funds)	**10**	**16**	**15**	**15**	**14**	**13**	**3**		**1**	**3**

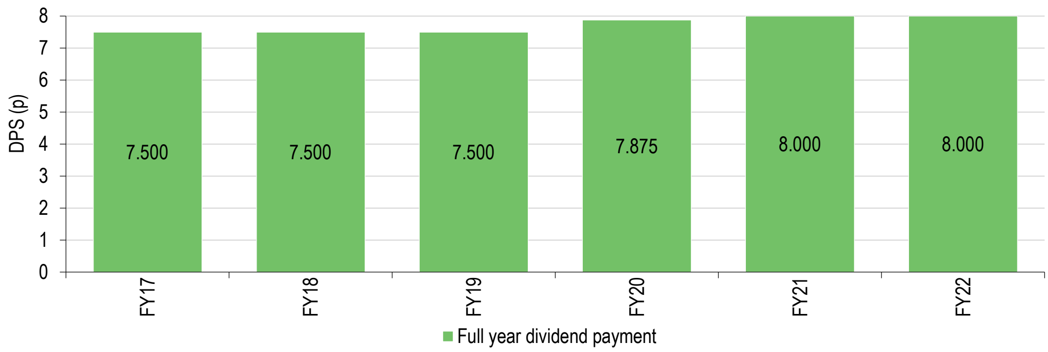
Source: Morningstar, Edison Investment Research. Note: *Performance to 6 March 2023 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Dividends: Fully covered by income since FY19

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). At the end of H123, UIL had revenue reserves of 19.0p per share, which is equivalent to c 2.4x the current annual dividend.

In H123, UIL's revenue income was £8.5m, which was a 97.7% increase compared with £4.3m in H122. However, this includes a single rather than a semi-annual dividend payment from Somers. UIL's H122 semi-annual dividend was 1.9x covered and maintained at 4.0p per share.

Exhibit 10: Dividend history since FY17



Source: Bloomberg, Edison Investment Research

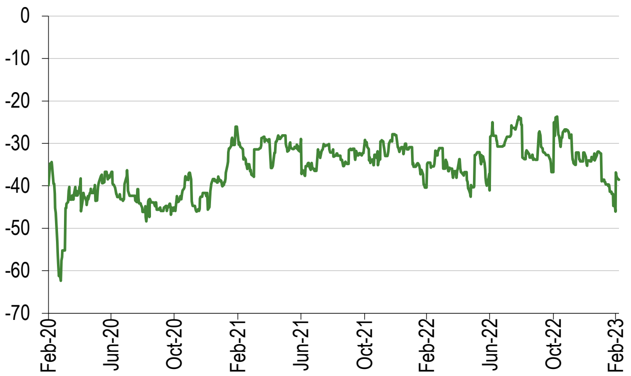
Jillings highlights that as Zeta Resources and Somers repaid loan notes to UIL as partial funding for the redemption of the 2022 ZDPs (see Gearing section below), UIL's interest income will decline. However, its dividend income is rising; for example, Resimac has just declared a final dividend of A$0.04 per share and Utilico Emerging Markets Trust has increased its dividend; its second and third interim payments for FY23 are 7.5% higher year-on-year. The manager comments that UIL is close to having a covered dividend in FY23.

Valuation: Board seeks lower discount

UIL's shares are trading at a 37.3% discount to cum-income NAV, which not dissimilar to the average discounts of 33.2%, 35.8%, 37.0% and 34.5% over the last one, three, five and 10 years respectively (based on monthly NAVs).

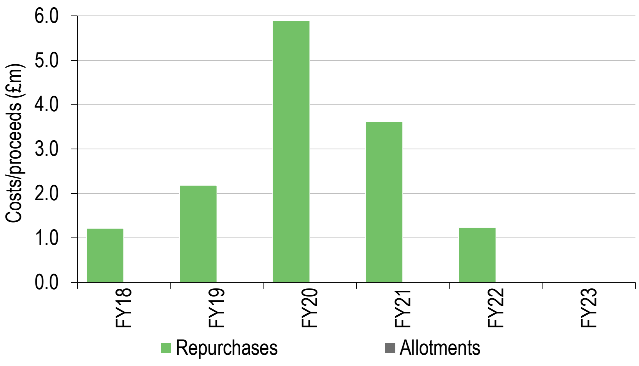
Jillings is hopeful that, over time, UIL's discount can narrow to the 20% target set by the board, helped by share buybacks and continued marketing to existing and potential investors. In FY22, c 0.5m shares (c 0 5% of the share base) were repurchased. Since then, there have been no further buybacks as in 2022, any available liquidity was put towards redeeming the 2022 ZDPs. Once liquidity becomes available, share repurchases may resume.

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

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 £1.8bn of assets directly under management and is responsible for a further c £22.2bn of assets in subsidiary investments. ICM has more than 80 staff based in more than 10 offices around the world.

Manager Charles Jillings and the other members 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 fully recognised. 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's performance is benchmarked against a broad UK equity market index. UIL employs a levered strategy through ZDP shares and a limited amount of bank debt. Its ZDP shares are listed on the Standard Segment of the Main Market of the London Stock Exchange.

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, who covers 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 70% 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 30% of the fund is in direct holdings. 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 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 Bank of Nova Scotia, London branch. The loan expires on 19 September 2023 and must be reduced by £12.5m by 30 March 2023. UIL's 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 73.4% at 31 December 2022. At the end of February 2023, net gearing was 77.2%, which is well below the board's 100% maximum target.

UIL has an exemplary track record of redeeming its 2012, 2014, 2016, 2018, 2020 and 2022 ZDP shares. The 35.6m 2022 ZDP shares were redeemed on 31 October 2022 at 146.99p per share for a total cost of £52.3m, funded by the sale of a third of UIL's Utilico Emerging Markets Trust holding (£20.8m) and repayments of loans due to UIL from Somers and Zeta Resources (£35.8m). UIL'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 the company's current three tranches of ZDP shares spread over five years; they are issued by UIL Finance, a wholly owned subsidiary of UIL.

Over time, UIL'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 4.8% at the end of December 2022 (a modest increase from 4.7% at the end of June 2022).

Exhibit 13: ZDP shares (at 28 February 2023)

	2024	2026	2028
Accrued capital entitlement (p)	128.04	126.67	110.93
Share price (p)	123.50	114.00	98.00
Premium/(discount) to NAV (%)	(3.5)	(10.0)	(11.7)
ZDP cover* (x)	3.51	2.53	1.97
Yield to redemption* (%)	7.0	8.1	8.1
ZDP redemption value (p)	138.35	151.50	152.29
Shares in issue (m)	30.0	25.0	25.0
Ticker	UTLG	UTLH	UTLI

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

Fees and charges

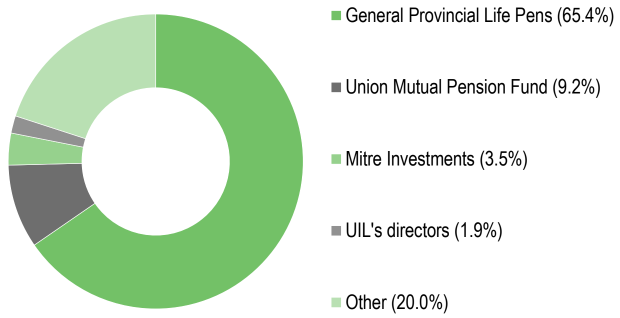
ICM receives an annual management fee of 0.5% pa of UIL's total assets less current liabilities (excluding borrowings and excluding the value of all holdings in companies managed or advised by ICM or its subsidiaries from which it receives a management fee), along with 45% of ICM's costs of providing 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 (RPI excluding mortgage payments) 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 H123, UIL's annualised ongoing charges were 2.9%, which was 90bp higher than 2.0% in H122; no performance fees were payable. The company's ongoing charges including performance fees in H122 were 4.2%. UEM'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

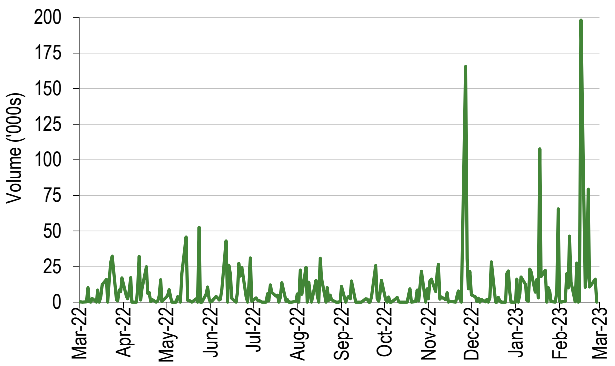
UIL has 83.8m ordinary shares outstanding, the majority are of which are held by companies associated with ICM manager Duncan Saville or UIL's directors; hence, the free float is 20%. Over the last 12 months, the company had an average daily trading volume of c 11k shares.

Exhibit 14: Major shareholders



Source: UIL. Note: At 31 January 2023.

Exhibit 15: Average daily volume



Source: Refinitiv. Note: 12 months to 7 March 2023.

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 was £47,600 for the chairman; £45,500 for the chairman of the audit and risk committee; and £35,200 for the other three directors.

Christopher Samuel will stand down on 31 May 2023. The board will continue with four members unless there is a need to appoint another director for a period to provide a future orderly succession.

Exhibit 16: UIL's board of directors

Board member	Date of appointment	Remuneration in FY22	Shareholding at end-Jan 23
Peter Burrows (chair since November 2015)	September 2011	£47,600	909,617
Alison Hill	November 2015	£35,200	109,404
Christopher Samuel	November 2015	£35,200	225,019
David Shillson	November 2015	£35,200	151,962
Stuart Bridges (chair of the audit & risk committee)	October 2019	£45,500	172,835

Source: UIL

General disclaimer and copyright

Australia

New Zealand

United Kingdom

United States

London | New York | Frankfurt
20 Red Lion Street
London, WC1R 4PS
United Kingdom