Westhouse

27 February 2013

Buy

from No Rec

Price
162.5p

NAV (cum income, est)
251.7p

Discount
35.4%

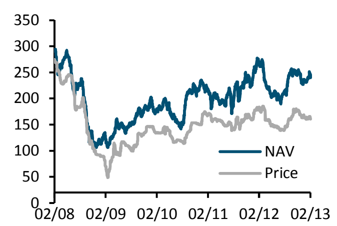
Net yield (est)
4.6%

Key data

Ticker	UTL
Listing/Domicile	Main/Bermuda
Market cap (ords, £m)	162
Fund manager	ICM, Charles Jillings
Launch date	14 August 2003
Fees	AMC 0.5% (gross assets), 15% perf
Capital structure	**(31 Jan 2013)**
Bank and other debt	£53.7m
2014 ZDP shares (UTLB.L)	£70.7m
2016 ZDP shares (UTLC.L)	£70.7m
2018 ZDP shares (UTLD.L)	£52.8m
Shareholders' equity (net assets)	£242.4m
Effective gearing on ordinary shares	102%
12m price range (p)	138.5 – 185.0
12m discount range (%)	22.5 – 36.8

FUND OBJECTIVE: To maximise shareholder returns by investing, on a global basis, in securities where the underlying value is not reflected in the market price.

Price & NAV, five years (p)



Total return performance (GBP, %)

Over:	1yr	3yr	5yr
NAV	-3.7	60.1	-3.4
Share price	-5.4	44.3	-27.6

Pricing: Morningstar as of 26 Feb 2013

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Utilico Investments*

Geared growth and 4.6% yield

Utilico Investments (UTL) offers geared exposure to a concentrated portfolio of global stocks, is backed by a strong long-term track record and pays an attractive yield. Over the last reporting period, the six months ended 31 December 2012, the fund comfortably outperformed the broader equity markets, recorded strong earnings growth, increased its interim dividend and declared a special dividend. We believe the shares are attractively valued at a 35.4% discount to NAV and initiate coverage with a Buy recommendation.

Highlights from the half-yearly results to 31 December 2012:

NAV TR +11.7% vs. FTSE All-Share TR +8.7% and MSCI World TR +5.9%

The fund outperformed over the period, although with significantly greater volatility. In the first quarter, the NAV gained 23.3%, and then fell 9.4% in the three months to 31 December 2012. The majority of this volatility was attributable to the fund's largest holding, Resolute Mining, reflecting concerns about the situation in Mali, where one of its mines is located.

Significant outperformance since inception

At the end of the period, the fund's NAV total return since inception in August 2003 stood at 11.4% pa, significantly ahead of the FTSE All-Share index total return of 8.1% pa and MSCI World index total return of 6.6% pa over the same period.

Earnings per share up 14.1% to 7.46p

Earnings per share for the period stood at 7.46p, up 14.1% from 6.54p in the same period the previous year. The higher level of income received during the period included the dividends from New Zealand Oil & Gas, BNL and the maiden dividend from Resolute.

Interim dividend up 7.1% to 3.75p and 2.50p special dividend

An interim dividend of 3.75p was declared for the period, up from 3.50p for the same period in 2011. A special dividend of 2.50p was also declared, reflecting the higher level of income received. The dividends will be paid on 10 April 2013, with an xd date of 6 March 2013. Assuming a 3.75p final dividend, the shares are trading on a prospective yield (not including any special dividends) of 4.6%.

2012 ZDPs redeemed

The 2012 zero dividend preference shares (ZDPs) were redeemed in full on 31 October 2012 at a cost of £69.8m, with the funds for the redemption coming from the placing of 2018 ZDP shares, the £50m bank facility and cash raised from portfolio realisations.

Two new Bermudan-listed strategic investment vehicles established

The first, Bermuda National Ltd, will bring together a number of financial services investments. The second, Bermuda First Investment, will hold a number of investments in Bermudan companies. Both will hold investments previously owned directly by Utilico.

Agreement to form an active Australian listed resource holding group

Post the period end, Utilico entered into agreements to combine a number of its resource investments with an Australian based resources company to form an active Australian-listed resource holding and development group, Zeta Resources Ltd.

Narrower mandate vehicles seek success of Infratil and UEM

The Board's rationale behind the formation of Zeta and Bermuda National in particular, is to seek to replicate the success over recent years of Infratil and Utilico Emerging Markets, which were set up in similar fashion. The Board believes that, by having an asset focused investment mandate, these two vehicles should attract capital and management teams who are best-placed to invest in these sectors, where they see significant investment opportunities to the strategic long-term investor.

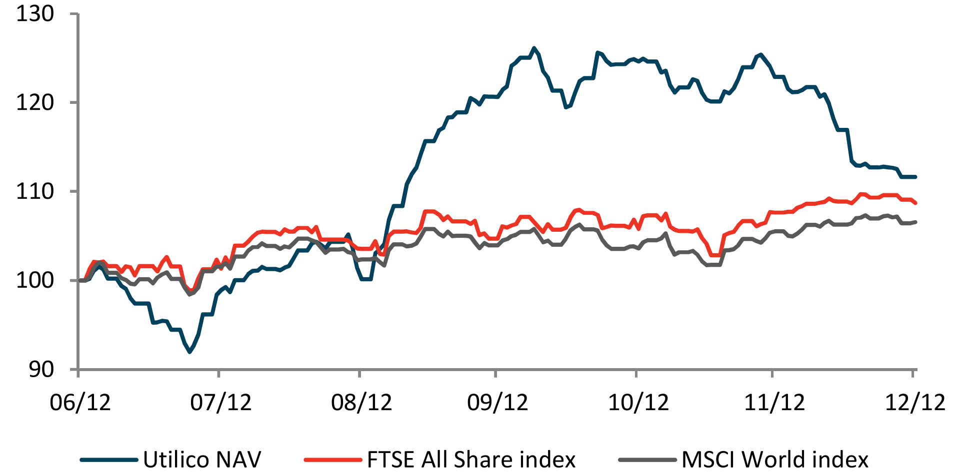
*Westhouse acts as financial adviser and broker to this company and has agreed to publish research on it at least annually.

Performance

Strong half year: NAV TR +11.7% vs. FTSE All-Share TR +8.1% and FTSE World TR +6.6%

The fund outperformed over the six months to 31 December 2012, although with significantly greater volatility than the broader equity markets. In the first quarter, the NAV gained 23.3%, and then fell 9.4% in the three months to 31 December 2012. The majority of this volatility was attributable to the fund's largest holding, Resolute Mining, reflecting concerns about the situation in Mali, where one of its mines is located.

Figure 1: GBP total return, six months to 31 December 2012, indexed to 100



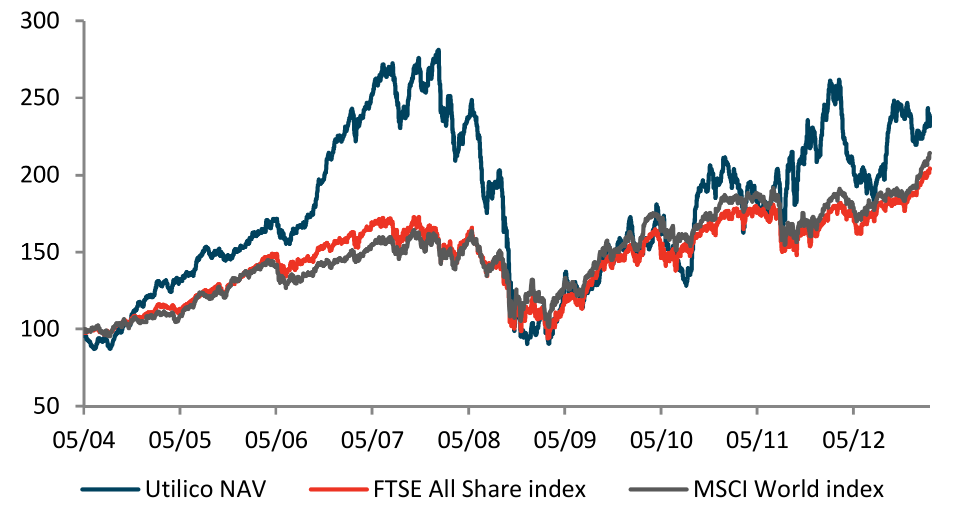
Source: Morningstar

Strong long-term track record

NAV delivered a total return of 164.1% vs. a total return of 107.2% from the FTSE All-Share index and 86.9% from the FTSE All World index

Since its inception in August 2003 to 31 December 2012, the NAV delivered a total return of 164.1% (11.4% annualised) compared to a total return of 107.2% (8.1% annualised) from the FTSE All-Share index and 86.9% (6.9% annualised) from the FTSE All World index.

Figure 2: GBP total return, longest available data, indexed to 100



Source: Morningstar

Discount

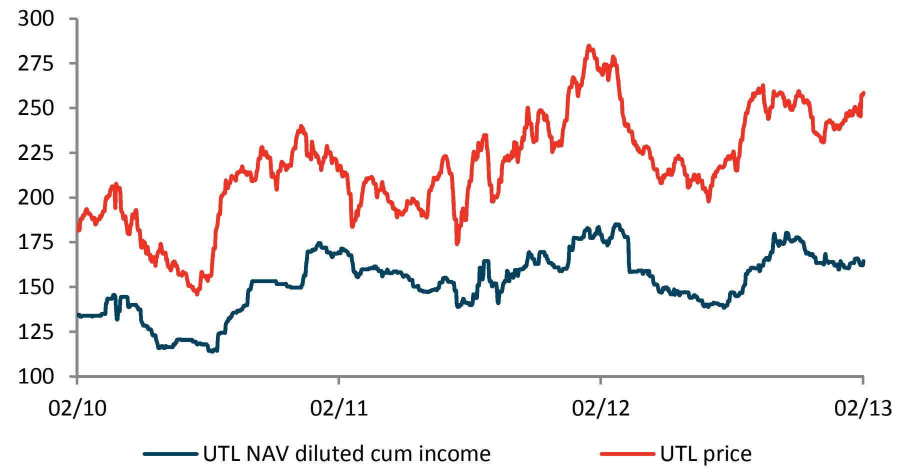
Resolute Mining made up 21% of gross assets at 31 January 2013

Discount at the wider end of recent years' range

Over the last three years, UTL shares have traded on discounts ranging from c.15% to c.40%, averaging c.30% over the period. The current rating of 35.4% discount is therefore attractive from a historic perspective. Other factors to consider when assessing the discount would be:

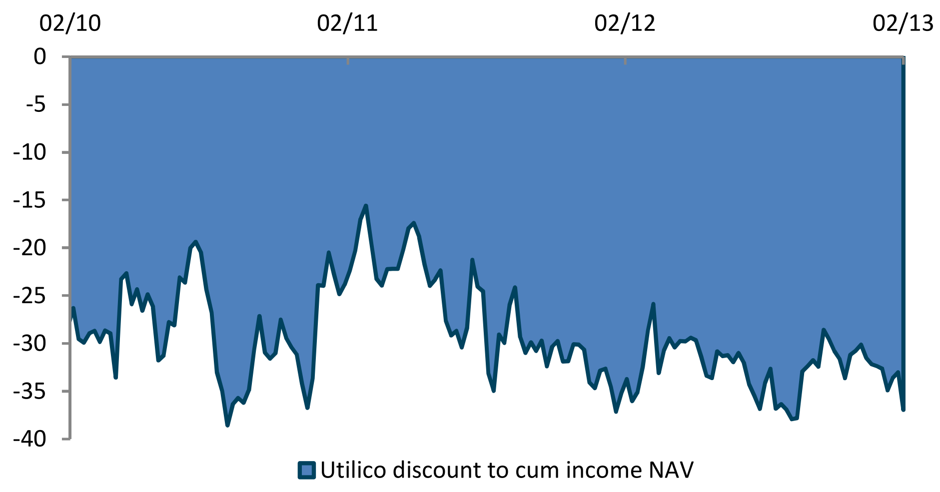
- Gearing at average levels: c.100% currently - managers' target range is 50-150%
- Stock specific risk average relative to history – Resolute Mining, the fund's largest single name exposure in recent years, which at one point accounted for 37% of the portfolio, made up 21% of gross assets at 31 January 2013.
- No ZDP shares are due for redemption in the short term – the next ZDP share maturity is in October 2014.

Figure 3: Price and NAV, three years, p



Source: Morningstar

Figure 4: Price discount to NAV, three years, %



Source: Morningstar

Portfolio activity, six months ended 31 December 2012

Portfolio gains

The portfolio investments increased by £43.3m to £466.6m, mainly driven by gains on investments of £27.0m. A reversal in derivative gains detracted from the performance.

Low portfolio turnover

£59.7m was invested and £43.4m was realised, of which £6.7m was from the reduction in the Resolute Mining position.

Little change in sector and geographic exposure

The geographic and sectoral weightings were broadly in line with the position at 30 June 2012. The exception was Bermuda, which has seen its geographic weighting increase to 12% from 9% as a result of further investment into BNL. This also resulted in an increase in the Financial Services sector. The UK and Channel Islands exposure was reduced mainly as a result of the reduction in the Jersey Electricity holding.

Unlisted exposure remains low

The gross assets continue to comprise mainly listed and traded investments. The unlisted holdings accounted for 7.5% of the gross assets (December 2011: 7.8%).

Changes within the top ten

The top ten increased over the six months as a proportion from 59.9% to 61.9% as a result of stronger gains in these holdings

- **Jersey Electricity** was down from fifth to ninth as a result of a weaker share price and a reduction in the holding
- **Bermuda National** has entered the list following its takeover of Bermuda Commercial Bank. Utilico previously held 35.0% of BCB and now holds 45.0% of BNL
- **Keytech,** which was just outside the top ten, has moved to seventh on a stronger share price and US dollar exchange rate

New specialist vehicles

Three new specialist focus vehicles have been set up; two during the period and one post the period end.

- **Bermuda National Limited (BNL)**, in which Utilico holds 45%, will bring together a number of financial services investments, including the 100% ownership of Bermuda Commercial Bank (BCB), previously 35% owned by Utilico
- **Bermuda First Investment Company (BFIC)** will hold a number of investments in Bermudan companies, including the holdings in Ascendant Group and Keytech Limited which were previously held directly by Utilico. Utilico holds over 50% of BFIC and as such, it is consolidated within Utilico's interim accounts
- In January 2013, Utilico announced that it had entered into agreements to combine a number of its resource investments with Kumarina Resources, an Australian-based resources company with copper and gold projects in Western Australia, to form an active Australian listed resource holding and development group, **Zeta Resources Ltd**

Narrower mandate vehicles to provide sharper focus

The Board's rationale behind the formation of Zeta and Bermuda National in particular, is to seek to replicate the success over recent years of Infratil and Utilico Emerging Markets, which were set up in similar fashion. The Board believes that by having an asset-focused investment mandate, these two vehicles should attract capital and management teams who are best-placed to invest in these sectors, where they see significant investment opportunities to the strategic long-term investor.

Bank debt drawn in full

The bank debt was drawn in full during the six months. £45.0m was used to finance the redemption of the 2012 ZDP shares and £5.0m was used for investment into the portfolio. This was all drawn in Sterling.

2012 ZDP shares redeemed, new 2018 ZDP shares issued

During the six months, Utilico redeemed the outstanding 2012 ZDP shares in full at a cost of £69.8m. To fund this, the company raised £17.0m from the placing of a new issue of 2018 ZDP shares in the market and used £45.0m of its bank facility. The balance of £7.8m came from portfolio realisations.

At the time of placing the 2018 ZDP shares in the market, 12.3m shares were placed with Utilico. Utilico has since sold 2.3m of these into the market. The sale prices have been above the accrued capital value.

Hedging: S&P 500 puts and protection against a strong sterling

- The market hedging gains from last year were reversed this year as markets firmed and the position eroded. Utilico ended the year with a net S&P 500 put option position with a carrying value of £2.6m
- Currency hedges were maintained to partially protect the sterling value of certain investments. At the period end, forward currency sale contracts were in place for a nominal NZ$126.0m, €11.9m and A$11.3m.

4.7% annualised yield on gross assets

Total income rose 15.1%

Total income rose 15.1% (from £8.5m to £9.8m), mainly as a result of dividends from New Zealand Oil & Gas and Bermuda National and a maiden dividend from Resolute Mining. This resulted in an annualised revenue yield on average gross assets of 4.7%.

Finance costs lower

Finance costs reduced markedly (£0.3m vs. £0.6m) due to lower average borrowings and lower interest rates.

Other expenses higher

Other expenses at £0.7m are significantly higher than last year (£0.4m), due in part to increased professional expenses associated with BFIC and other corporate actions by Utilico.

Earnings per share up 14.7%

The combined effect of the above movements in income and expenses resulted in the revenue earnings per share rising 14.1% to 7.46p.

Total expense ratio

The ongoing charges ratio was 2.0% over the six months, up marginally from the previous period as a result of increased expenses.

Portfolio breakdown, 31 December 2012

The ten largest holdings and sector and geographical analysis are presented on a "look through" basis as though investments held by Infratil, UEM and BFIC were held on a proportionate basis by Utilico itself.

Top 10 holdings

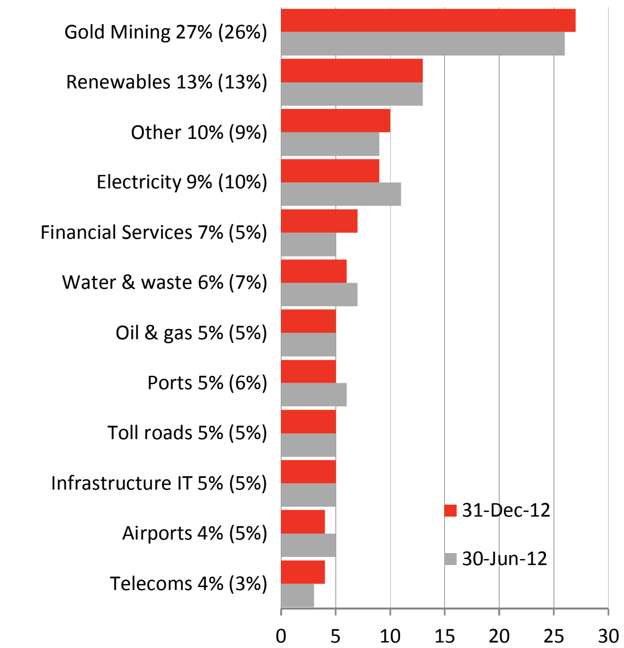
Table 1: Utilico Investments top holdings

31 Dec 2012	30 Jun 2012	Holding	Sector		% of total investments
1	1	Resolute Mining	Gold miners	Australia	*26.2*
2	2	TrustPower Ltd	Electricity generation & supply	New Zealand	*9.4*
3	-	Bermuda National Ltd	Financial Services	Bermuda	*6.2*
4	4	Vix Group (unlisted)	Automated fare collection systems	Australia	*3.7*
5	7	Infratil Energy Australia Pty	Electricity generation & supply	Australia	*3.7*
6	6	Renewable Energy Generation	Wind power	UK	*2.8*
7	-	Keytech	Telecommunications	Bermuda	*2.5*
8	8	New Zealand Oil & Gas	Oil & gas	New Zealand	*2.5*
9	5	Jersey Electricity plc	Electricity generation and supply	Jersey	*2.5*
10	9	Z Energy Ltd (unlisted)	Oil & Gas	New Zealand	*2.4*
		Ten largest holdings			***61.9***
		Other investments			***38.1***
		Total			***90.6***

Source: Utilico Investments Limited

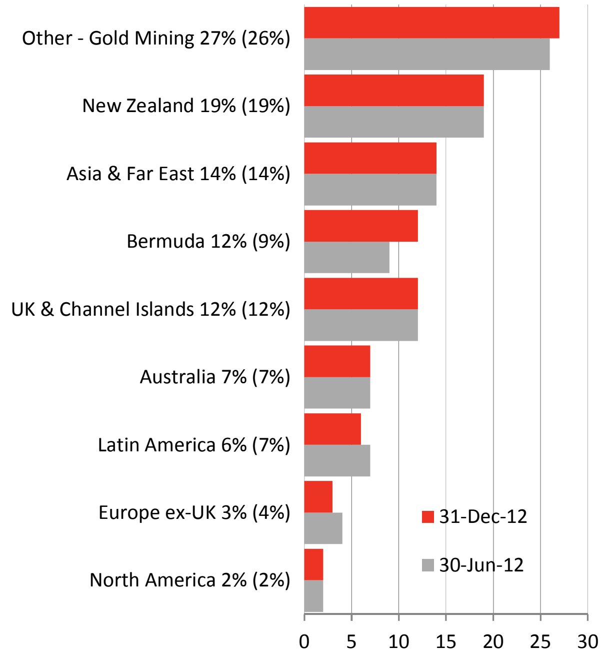
Sector and geographic exposure

Figure 5: Sector breakdown



Source: Utilico Investments Limited

Figure 6: Geographic breakdown



Source: Utilico Investments Limited

Investment Manager's update on the largest portfolio holdings

Six months to 31 December 2012, on a look through basis

Resolute Mining	Australia	Gold producer	Mkt cap: £579m	Yield: 3.8%

About the company

Resolute is an unhedged gold producer with three operating gold mines in Australia and Africa. Resolute is the second largest gold producer by volume listed on the Australian Stock Exchange. Its gold projects have yielded nearly 6m ounces of gold in the past 20 years.

Business performance

Resolute continued to improve operational performance in the six months from June to December 2012. During the period, gold production reached 222,943oz, an increase of 20.5% YoY. Cash costs increased by 5.7% in the period to an average of A$783/oz, and are expected to remain high due to expansion of the Syama operations. In the year to June 2013, Resolute has forecast production of 415,000oz at an average cash cost of A$830/oz, up from 398,450oz at a cash cost of A$758/oz last year.

In the six months to December 2012, Resolute sold 205,892oz of gold at an average price of A$1,616/oz. Gold sales were less than production during the six months due to the build-up of gold in circuit at Syama mine.

In August 2012, Resolute declared a maiden dividend of A$0.05 paid to shareholders in November 2012.

Resolute's balance sheet remains healthy with cash and bullion of A$108m as at 31 December 2012. In the period, Resolute bought back 22.3m shares at an average price of A$1.49 per share.

Share price performance

Over the six months, Resolute's share price increased by 21.5% to A$1.64, though the share price remains volatile given the insurgency in northern Mali. Syama is located 300km south-east of the capital Bamako and operations have been unaffected by the military initiatives in the North.

Utilico transactions in the shares

During the period Utilico sold 5.4m shares at an average price of A$1.94, maintaining its equity interest at just under 20%.

Infratil Energy Australia	Australia	Electricity generator and supplier	Mkt cap: unlisted	Yield: n/a

About the company

Infratil Energy Australia Pty Ltd (IAE) is Infratil's Australian energy business and consists of peak load generation assets and an energy retailing business, Lumo Energy.

IEA was set up from scratch by Infratil in 2005 to exploit Australia's deregulating power markets. Since then through its brand, Lumo Energy, IEA has grown strongly to achieve a client base at 30 June 2012 of 457,000 customers, up 11% on the previous year. This flattening of client growth following a period of gains, comes as a result of IEA seeking to maximise margin rather than customer numbers. It has become increasingly selective regarding the quality of retail client it is prepared to supply.

Two new power stations were commissioned during the period, increasing generation capacity from 99MW to 275MW. IEA's generation assets are "peaking" power stations which produce electricity at times of high demand and high prices, thus sheltering the energy retailing business from spikes in wholesale energy prices.

Business performance

IAE has made excellent progress, with customer numbers at its electricity and gas retailing business, Lumo, increasing by 13.9% and EBITDA growth of 55.6% in the six months to September 2012. This improvement in the retail business in part reflects a weaker wholesale electricity market, which has limited production at its peaking generation facilities and Perth Energy subsidiary. IEA has correspondingly shelved expansion of generation assets at present.

Keytech Limited	Bermuda	Telecommunications	Mkt cap: £56m	Yield: 8.3%

About the company

Keytech Limited (Keytech) is the incumbent telephone company in Bermuda, providing fixed line voice, broadband and directory services. It has associate stakes in Bermuda Cablevision (Cable TV) and CellOne (mobile telephony). The company also has operations in the Cayman Islands.

Business performance

In the six months to September 2012, the company reported a 9.6% fall in revenues, although a combination of cost cutting and strong performances from associate investments resulted in a significant improvement in underlying net profits compared to 2011.

From September 2012, the company is no longer subject to the "60/40" rule, whereby 60% of the company's stock was required to be held by Bermudan investors.

Share price performance

Keytech's share price gained 2.5% during the period.

Vix Technology	Australia	Software developer	Mkt cap: unlisted	Yield: n/a

About the company

Vix is an international provider of market-leading products and services to both the public and private sectors. Vix builds market leading product development and services businesses that develop and operate specialised, mission-critical solutions for the payments, telecommunications and transportation industries.

Business performance

Vix continued to make good progress over the six months, in line with expectations.

TrustPower Ltd	New Zealand	Electricity generator and supplier	Mkt cap: £1.4bn	Yield: 5.2%

Utilico's investment in TrustPower is held indirectly, via its investment in Infratil, which in turn holds 50.5% of Trust Power's share capital.

About the company

TrustPower (TPW) is a New Zealand generator and supplier of electricity. It supplies electricity to 209,000 New Zealand retail customers, plus it owns and operates 630MW of electricity generation capacity in New Zealand and a further 99MW in Australia, all of which is carbon free, being hydro or wind based. Their portfolio includes the 161MW Tararua Wind Farm, the largest wind farm in the Southern Hemisphere.

Company performance

TrustPower reported a modest increase in profitability in the six months to end-September 2012, with EBITDA growth of 2.8%. This was a solid performance in the context of a decline in customer numbers and electricity sales volumes in New Zealand, where competition remains intense. Hydro and wind energy generation in New Zealand was affected by climatic conditions, though output at Snowtown in Australia improved. Construction of the 270MW Snowtown II wind farm project started during the period, and is due for commissioning in November 2014.

Share price performance

In the six months to December 2012 TPW's share price increased by 11.6%.

Bermuda National Limited	Bermuda	Corporate and private wealth bank	Mkt cap: £56m	Yield:3.3%

About the company

Bermuda National Limited (BNL) is an unregulated investment holding company whose major asset is Bermuda Commercial Bank Limited (BCB). BNL acquired BCB in October 2012 and shareholders in BCB became shareholders in BNL on a one for one basis. BNL's strategy is to make investments and acquisitions in the financial services sector and in addition to BCB, BNL has a number of other investments in the sector.

BCB was established in 1969 and is one of Bermuda's four licensed banks. It is a corporate and private wealth bank, offering a range of services.

Business performance

For the year ended 30 September 2012, BCB reported a profit before tax of US$7.5m (2011: US$2.6m) on total assets of US$572.0m (2011: US$532.0m) with shareholders' funds of US$104.8m (2011: US$82.9m). BCB's capital ratio of 23.3% is significantly above international standards and proposed Basel III capital levels.

Jersey Electricity	Jersey	Integrated electricity company	Mkt cap: £87m	Yield: 3.6%

About the company

Jersey Electricity (JEL) is the integrated electricity company serving the Island of Jersey. While JEL has standby generation capacity, it sources its energy from EDF in France via a subsea electric transmission line.

Following a period of increasing European wholesale electricity prices, plus a fall in the value of sterling against the Euro, the past couple of years have seen a little more stability with the result that JEL has not been required to implement substantial price increases. Rather, a 5% tariff cut was implemented in January 2010, and tariffs were maintained at that level until May 2012, when a 2.9% tariff increase was applied.

JEL is taking steps to further upgrade and strengthen Jersey's distribution network, and is now beginning the process of installing a new interconnection to France.

Business performance

JEL reported poor results for the year to September 2012. Revenues fell 3.3% YoY reflecting weak demand in energy sales which failed to be offset by a 2.9% tariff increase in May 2012. The greatest impact to the business has been the permanent loss of one of its two subsea connections to France, which not only has led to the business relying more heavily on expensive diesel-based generation, but has also seen a one-off £1.6m uninsured cost element on decommissioning. This has resulted in EBITDA dropping 20.5% year-on-year.

The company is looking to install a new subsea interconnector by 2015 with a total investment of £70m, on top of further investment in diesel engines of £10m through Q2 2013.

Share price performance

JEL's share price performed very poorly in the six months to December 2012, falling 21.5%.

Utilico view

The managers remain concerned that the company is unable to maintain a fair return on its current assets and provide an adequate return for this significant increase in capex. At the same time, this expenditure will see significant leverage added to the balance sheet which has historically been healthily net cash positive.

Renewable Energy Generation	UK	Wind energy generator	Mkt cap: £71m	Yield: 2.9%

About the company

Renewable Energy Generation Limited (REG) is a generator of renewable energy through the ownership and operation of smaller-sized wind farms in the UK totalling 51.2MW.

Business performance

REG continues to make progress. In the six months to December 2012, it commissioned the 10MW Sancton Hill and the 6MW South Sharpley wind farms, increasing installed capacity by almost 40%. This resulted in energy generation growth of +14.9% to 64GWh, although higher operating costs resulted in EBITDA dropping 12% in the period. Falling turbine and equipment prices have helped improve returns for wind farm operators, but the lack of clarity on long-term subsidies continues to impact negatively on investment into the renewables sector.

Share price performance

REG's share price increased by 3.3% during the period. Post period end REG announced a strategic partnership with Blackrock which included the sale of two wind farms with total capacity of 16MW for £32.1m. At c.£2m per MW this demonstrates the inherent value of the business, with proceeds from the sale being reinvested both into new projects and a share buyback. This is a very positive development which has been reflected in the share price, which increased materially post-announcement.

Utilico view

Longer term, REG is well positioned to take advantage of any increase in UK wholesale electricity prices which may occur as existing nuclear power stations are de-commissioned, and some older coal plants are also closed as a result of EU emissions rules.

Z Energy Limited	New Zealand	Fuel refiner and distributor	Mkt cap: unlisted	Yield: n/a

About the company

Z Energy Limited is Infratil's 50%-owned joint venture with the New Zealand Superannuation Fund, set up to purchase and operate Shell NZ's downstream New Zealand business. It operates 220 retail fuel stations, owns port infrastructure and pipelines and operates fuel refining, storage and distribution assets, and supplies fuel to the marine sector.

The business has an approximate 30% share of the New Zealand fuels market. Z Energy also holds a 17% stake in listed company, New Zealand Refining Limited, which owns and operates the Marsden Point oil refinery, supplying 70% of New Zealand's fuel requirements.

Infratil has spent the past year changing Z Energy from being a small part of a global multi-national, to a standalone business with its own identity.

Business performance

Whilst retail competition remains aggressive in a mature market, Z Energy delivered good improvements in operational efficiency. The company continues to focus on improved efficiency, including plans to construct additional storage and terminal facilities to improve resilience of fuel supplies and lower shipping costs.

New Zeeland Oil & Gas	New Zealand	Oil & Gas	Mkt cap: £209m	Yield:0.7%

About the company

New Zealand Oil & Gas Ltd (NZOG) is an independent New Zealand oil & gas exploration and production company, with exposure to two relatively low-cost production assets in New Zealand: the Kupe gas & oil field (15% partner) and Tui area oil fields (12.5% partner). In addition, NZOG has an exploration portfolio in New Zealand, Indonesia and Tunisia.

NZOG is listed on both the New Zealand and Australian stock exchanges. The company has increased its staffing levels to position itself as the joint venture partner of choice for foreign oil companies looking to participate in offshore New Zealand oil & gas exploration, and also to win further exploration blocks as they are made available by the New Zealand government.

Business performance

NZOG's full year June 2012 results showed a 9.3% YoY increase in revenue at NZ$116.4m and EBITDA up 23.8% at NZ$68.1m.

Net income was NZ$19.9m.

Utilico view

NZOG has substantial cash reserves, which management has recently indicated may be committed to exploration activities over the next five years, but in the meantime offer little return. Utilico's preference would be for a substantial return of cash to shareholders, perhaps in the form of a buy back, with the company coming back to the market for capital only when the money is needed.

Source: **Utilico Investments Limited, Bloomberg**

Capital structure

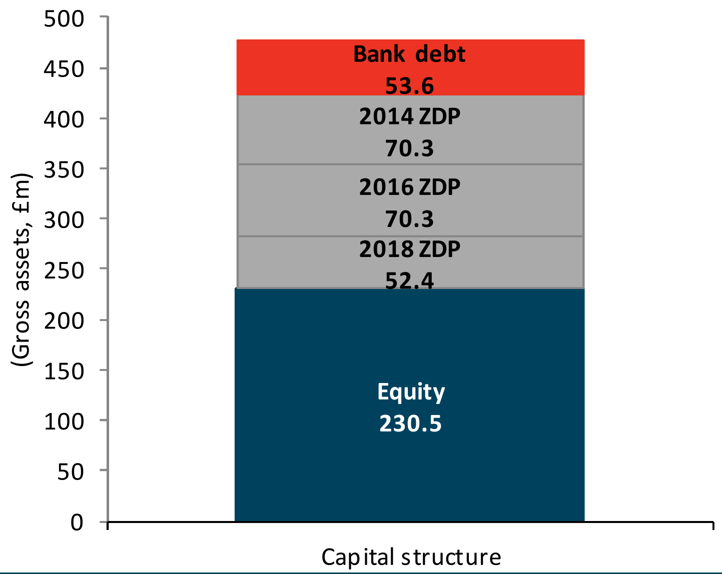
Most of Utilico's gearing is structural, in the form of zero dividend preference shares (ZDPs). However, bank debt is also employed. Gearing for the ordinary shares is targeted at around 100%, with a range of 50% – 150%.

Gearing on equity capital was 107% at 31 Dec 2012

Utilico currently has three lines of ZDP shares, a £50m bank loan facility and a $10m bank overdraft facility. At 31 December 2012, these gave a gearing on equity capital of 107%.

The ZDPs are redeemable at two years intervals from October 2014 to October 2018.

Figure 7: Utilico capital structure, 31 December 2012



Source: Utilico Investments Limited

Table 2: ZDP key measures, 31 December 2012

	Unit	2014	2016	2018
Ticker		UTLB	UTLC	UTLD
Redemption date		31/12/2014	31/12/2016	31/12/2018
Life	Years	1.8	3.8	5.8
Final capital entitlement	P	167.6	192.78	160.52
	£m	79.6	91.6	80.0
Accrued capital entitlement	p	157.5	161.4	111.0
	£m	70.3	70.3	52.4
Accrual rate	*%*	*7.25*	*7.25*	*7.25*
Final entitlement cover*	x	3.58	2.12	1.57
Hurdle to break of cover	*%*	*72.1*	*52.9*	*36.1*
	% ann	*50.1*	*17.8*	*7.4*
Hurdle to wipe-out	*%*	*88.8*	*72.1*	*52.9*
	% ann	*69.7*	*28.3*	*12.1*
Shares in issue		47,500,000	47,500,000	49,842,413
Price 25 February 2012	p	157.0	162.5	113.0
Gross redemption yield (GRY) 25 February 2012	*%*	*4.0*	*4.8*	*6.4*

***The final entitlement cover is calculated as (gross assets less current non-debt liabilities) / (cumulative debt of an equal or higher charge).**
Source: Company data, Westhouse estimates

About Utilico Investments Limited

Utilico Investments Limited (UTL) is an exempted closed-end Bermuda-incorporated investment company listed on the Main Market of the London Stock Exchange. UTL was incorporated under the name Utilico Limited on 17 January 2007 and began trading on 20 June 2007. The company is a successor of Utilico Investment Trust plc, which started trading on 14 August 2003. On 18 January 2011, Utilico Limited changed its name to Utilico Investments Limited.

Capital structure

As of 31 December 2012, UTL's capital was comprised of:

- **99,632,214 ordinary shares (UTL.L)**
- **47,500,000 2014 ZDP shares (UTLB.L)**
  increase from 100p on 15 June 2007 by 7.25% pa to 167.60p on 31 October 2014
- **47,500,000 2016 ZDP shares (UTLC.L)**
  increase from 100p on 15 June 2007 by 7.25% pa to 192.78p on 31 October 2016
- **49,842,413 2018 ZDP shares (UTLD.L)**
  increase from 100p on 26 Jan 2012 by 7.25% pa to 160.52p on 31 October 2018
- **£50m debt facility with ScotiaBank Europe**
  expires in March 2014. £50m drawn at 31 December 2012

Investment policy

Undervalued investments

The company seeks to invest in undervalued investments and has the flexibility to make investments in a wide range of sectors and markets.

The managers look to identify and invest in opportunities where the underlying value is not reflected in the market price. This perceived undervaluation may arise from any number of factors including technological, market motivation, prospective financial engineering opportunities, competition or shareholder apathy.

Widened investment mandate

Unrestricted mandate

In January 2011, the company adopted a widened investment mandate, removing the constraint of investing predominantly in infrastructure, utility and related sectors and companies that supply services to these sectors.

Significant exposure to developed world utilities in the short to medium term

Bias remains on utilities and related stocks

In the short to medium term, it is anticipated that the company will continue to have a significant proportion of its gross assets invested in developed markets in utilities and related stocks.

Benchmark

Following the change in investment mandate, the fund's benchmark was changed from the DJ World Utilities index to the FTSE All-Share index.

Permitted investments

The company is permitted to invest in shares, bonds, convertibles and other types of securities, and can also invest in unlisted securities.

Geographic remit

Global remit

The company has the flexibility to invest in markets worldwide, although investments in the utilities and infrastructure sectors are principally made in the developed markets of Australasia, Western Europe and North America, as Utilico's exposure to the emerging markets, infrastructure and utility sectors is primarily through its holding in the Utilico Emerging Markets Fund (UEM.L). Utilico has the flexibility to invest directly in these sectors in emerging markets with the prior agreement of UEM.

Investments in other funds

Large holding in Utilico Emerging Markets

The fund may invest in other investment companies or vehicles, including any managed by the Investment Manager, where such investment would be complementary to the company's investment objective and policy. As at 31 January 2013, the company had 21.6% of its gross assets invested in the Utilico Emerging Markets Fund (UEM.L).

Use of derivatives

Derivatives can be used for efficient portfolio management

The managers may use derivative instruments such as American Depositary Receipts, promissory notes, foreign currency hedges, interest rate hedges, contracts for difference, financial futures, call and put options and warrants and similar instruments for investment purposes and efficient portfolio management. This includes protecting the company's portfolio and balance sheet from major corrections and reducing, transferring or eliminating investment risks in its investments.

Investment strategy

Bottom-up fundamentals-based investment process

The managers employ a fundamentals-based bottom-up investment process. There are no specific screening criteria and companies are assessed on a case-by-case basis. Company visits are regularly employed. There is no style bias in terms of market cap or value/growth. What the managers are looking for in every investee company is an IRR on investment of at least 20%. In this respect, their investment style may be characterised as "*relative value*": the portfolio may hold companies on low P/Es, but also on high P/Es if these are justified by commensurately high growth rates.

Unconstrained portfolio

The portfolio is a result of the individual stock picks and is not run by reference to any market benchmark index. As a consequence, the fund can have large exposures to certain countries or sectors and little resemblance in breakdown to any market indices.

Active investment approach

The company believes it is appropriate to support investee companies with their capital requirements while at the same time maintaining an active and constructive shareholder approach through encouraging the organisation of capital structure and business efficiencies.

Can hold large stakes in investee companies

The Investment Manager's investment team maintains regular contact with investee companies and Utilico may often be among the largest shareholders. There are no limits on the proportion of an investee company that Utilico may hold and Utilico may take legal or management control of a company from time to time.

Concentrated portfolio

The company aims to maximise value for shareholders through a relatively concentrated portfolio of investments. Liquidity is not a main consideration when building the portfolio and some of the holdings can be fairly illiquid. The portfolio normally holds about 60-80 stocks, with the bulk of the assets concentrated in the top 10-20 stocks. Turnover tends to be low.

Investment restrictions

There are no fixed limits on the allocation of investments between sectors and markets; however the following investment limits apply:

Max 30% in a single name

- no single investment will exceed 30% of gross assets at the time such investment is made, save that this limit shall not prevent the exercise of warrants, options or similar convertible instruments acquired prior to the relevant investment reaching the 30% limit

Max 20% in unlisted investments

- investments in unlisted companies will in aggregate not exceed 20% of gross assets at the time that any new investment is made

Borrowings

Gearing up to 33.3% of gross assets, excluding ZDP shares

The company is permitted to borrow an aggregate amount equal to 100% of the company's gross assets. Borrowings will be drawn down in any currency appropriate for the portfolio. However, the Board has set a current limit on gearing (being total borrowings, excluding ZDP shares, measured against gross assets) not exceeding 33.3% at the time of draw down.

Borrowings may be drawn down in sterling, US dollars or any currency for which there is a corresponding asset within the portfolio. At the time of draw down, the value drawn must not exceed the value of the relevant asset in the portfolio.

£50m facility

The company currently has a £50m floating rate facility with ScotiaBank Europe, expiring in March 2014. At 31 December 2012 the whole facility was drawn.

The board of directors

Dr Roger Urwin CBE* (Chairman)

Dr Urwin, aged 66 and appointed in May 2007, has many years' experience in the international utility sector, playing a major role in the restructuring and privatisation of the UK electricity industry. He was previously chief executive of National Grid plc, a non-executive director of Utilico Investment Trust plc and a former chairman of Alfred McAlpine plc. He is a director of Canadian Utilities Limited.

Peter Burrows AO*

Mr Burrows, aged 65 and appointed in September 2011, is a Bachelor of Economics and is currently a director of Bell Potter Securities Ltd, based in Australia. He has many years' experience as a stockbroker and founded his own independent specialist private client firm, Burrows Limited, in 1986. Mr Burrows was previously the chairman of Garratt's Limited, ASC Limited and Rabbit Photo Holdings Ltd and was previously a director of a number of other listed and unlisted companies. Mr Burrows has also been made an officer in the Order of Australia (AO) for his services to medical research, tertiary education and finance.

John Michael Collier

Mr Collier, aged 66 and appointed in May 2007, was educated in Bermuda, the UK and North America. He spent 33 years with the Bank of Butterfield in Bermuda and retired in 1996 as president and chief executive officer. He is currently chairman of Bermuda Commercial Bank Limited and of West Hamilton Holdings Limited. He stood down as chairman of the Ascendant Group of companies in May 2012 although he remains on the board as a non-executive director until 2013. He is a non-executive director of RESIMAC Ltd.

Susan Hansen

Ms Hansen, aged 51 and appointed in May 2007, is a chartered accountant and MBA graduate and has worked in financial services since 1980. She has previous experience in chartered accountancy and investment banking, and is a director of RESIMAC Limited, a securitisation company, as well as the principal of a financial training organisation in New Zealand. She is a member of the Institute of Chartered Accountants in Australia.

Eric Stobart*

Mr Stobart, aged 64 and appointed in May 2007, is a chartered accountant and MBA graduate from London Business School. He spent most of his career in merchant and commercial banking, lately as Director of Public Policy and Regulation for Lloyds TSB Group plc (now Lloyds Banking Group plc). He is a non-executive director of Capita Managing Agency Limited, The Throgmorton Trust plc and Falcon Property Trust and a trustee of a number of Lloyds Banking Group Pension Schemes, of Dixons Retail Pension Scheme and of Lloyd's Superannuation Fund.

Warren McLeland (alternate to Ms Susan Hansen)

Mr McLeland, aged 66 is an alternate Director to Susan Hansen. He is a science and MBA graduate and was formerly a stockbroker and investment banker. He is now chief executive officer of RESIMAC Limited, a securitisation company. In addition, he acts as an adviser in funds management and business strategy to companies operating in the Asia Pacific region. He is Chairman of Bermuda National Limited and a nonexecutive director of Bermuda Commercial Bank Limited, Trust Company of Australia, Intellect Holdings Limited, Wilsons HTM Investment Group Limited and Permanent Investments Limited.

**Independent director*

The investment adviser

Bermuda-incorporated ICM Limited (ICM) is the company's investment adviser. ICM is responsible for the investment portfolio in conjunction with Charles Jillings and his team.

ICM represented by Duncan Saville

Duncan Saville, a chartered accountant, is a director of Utilico's Investment Manager, ICM Limited. He is a non-executive director of Infratil Limited, Vix Technology Pty Limited, Touch Holdings Limited and Global Equity Risk Protection Limited. He was formerly a non-executive director of Utilico Investment Trust plc and is an experienced director having previously been a non-executive director in both the water and airport sectors.

Charles Jillings

Charles Jillings is responsible for the day-to-day running of the portfolio

Charles Jillings is an employee of Utilico and he is responsible for the day-to-day running of the company and the investment portfolio in conjunction with the Investment Manager. He is qualified as a chartered accountant and previously worked in corporate finance at Hill Samuel for 10 years. He has been a director of a number of listed companies and he is a director of East Balkan Properties plc, Vix Technology Pty Limited and Global Equity Risk Protection Limited.

Assisting Duncan Saville and Charles Jillings are a team, including:

Jacqueline Broers

Jacqueline Broers has been involved in the running of Utilico and UEM since September 2010. Prior to joining the investment team, she worked in the Corporate Finance team at Lehman Brothers/Nomura. She is a qualified chartered accountant.

Jonathan Groocock

Jonathan Groocock has been involved in the running of Utilico and Utilico Emerging Markets since February 2011. Prior to joining the investment team, he was an equity research analyst at Investec. He is a CFA charter holder.

Mark Lebbell

Mark Lebbell has been involved with Utilico since its inception and before that he was with The Special Utilities Investment Trust plc from 2000. He is an associate member of the Institute of Engineering and Technology.

Company Secretary, ICM Limited

Amanda Marsh, a chartered secretary, joined the team in March 2012 and carries out the company secretarial duties of the Company, Utilico Finance Limited and Utilico Emerging Markets Limited (UEM) on behalf of ICM Limited.

Fees and charges

0.5% annual management fee

The Investment Manager is entitled to receive a fee equal to 0.5% pa of the company's gross assets after deducting current liabilities (excluding borrowings incurred for investment purposes and excluding the value of all holdings in companies managed or advised by the Investment Manager or any of its subsidiaries). The fee is payable semi-annually in arrears.

15% performance fee

The Investment Manager is entitled to a performance fee payable in respect of each financial period, equal to 15% of the amount by which the company's net asset value outperforms the real after tax yield on the FTSE Actuaries Government Securities UK Gilt 5 to 10 years' index during the period. The fee is subject to a high watermark.

A performance fee was last paid in respect of the 12-month period to 30 June 2007. As at that date, the equity holders' funds were £279.0m. In calculating any performance fee payable, the holding in Utilico Emerging Markets (UEM) is removed from the calculation in order that any such fee is charged solely on the performance of the portfolio excluding the investment in UEM. For the year to 30 June 2012, the attributable shareholders' funds were below the high watermark and therefore no performance fee was payable.

Administration fee

F&C provides accounting, secretarial, dealing and administration services to the company for a fixed fee of £295,000 pa, payable monthly in arrears.

Directors' remuneration

The aggregate fees payable to the Directors cannot exceed £200,000 pa.

Total expense ratio (TER)

For the year ended 30 June 2012, ongoing charges stood at 1.7%.

Dividend policy

The directors aim to distribute the majority of the company's net revenue arising from normal income streams. Dividend payments will be made in accordance with Bermuda law. Under this law, the company is unable to pay dividends unless it has revenue and other reserves (excluding share capital and share premium) which together are positive in value.

Dividend frequency

Dividends are paid semi-annually in March and October, net of tax.

2013 dividend

For the six months ended 31 December 2012, the company declared:

- An interim dividend of 3.75p (an increase of 7.1% from the 3.50p dividend paid in respect of the same period the previous year)
- A special dividend of 2.50p

Both dividends will be paid on 10 April 2013 to shareholders on the register at COB on 8 March 2013.

Dividend history

Table 3: Dividend history

p/share	YE 30 Jun 2010	YE 30 Jun 2011	YE 30 Jun 2012	HY 31 Dec 2012
Interim	-	3.25	3.50	3.75
Final	-	3.25	3.50	
Total ordinary	**-**	**6.50**	**7.00**	
Special	12.00	1.75	0.00	2.50
Total	**12.00**	**8.25**	**7.00**	

Source: Company data, Westhouse estimates

Discount management

The company can buy back shares in the market every financial year, up to 14.99% of the issued capital. Warrants and subscription shares can also be bought back.

Company life

The Company has an indefinite life.

Important dates

Financial year end: 30 June

Annual General Meetings: November

Divided xd dates: March and September

Dividend pay dates: March and October

Next dividend: 3.75p interim + 2.50p special, xd 6 March 2013, pay 10 April 2013

Risks

The main risks associated with this fund, in our view, are:

- **Highly geared structure:** current equity gearing is c.100% via three ZDP lines and bank debt (see capital structure on page 10)
- **Concentrated portfolio:** the ten largest holdings (on a look-through basis) amount to 62% of the investment portfolio (as of 31 December 2012)
- **Material stock specific risk:** Resolute Mining, the fund's largest individual holding, represents 21% of the portfolio (as of 31 January 2013)
- **Material sector specific risk:** gold mining, the fund's largest sector exposure, represents 23% of the portfolio (as of 31 January 2013)
- **Some exposure to unlisted holdings:** 7.5% as at 31 December 2012
- **Relatively illiquid listed portfolio:** many of the underlying listed holdings have a small market capitalisation and are relatively illiquid. Also, the fund holds large stakes in some portfolio companies
- **Use of derivatives:** the managers can employ the use of derivatives for hedging purposes
- **Currency risk:** most of the underlying portfolio holdings are denominated and/or exposed to currencies other than sterling
- **Refinancing risk:** the £50m bank facility (currently all drawn) expires in March 2014, the 2014 ZDP (£79.6m) matures in October 2014, the 2016 ZDP (£91.6m) matures in October 2016 and the 2018 ZDP (£80.0m) matures in October 2018
- **Discount risk:** the UTL price discount to NAV could widen further

Figure 8: Recommendation & share price tracker graph (2 years)

Source: Thomson Reuters, Westhouse

Explanation of recommendations

Westhouse Securities Limited uses a three-tier system for its investment funds recommendations. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the research report contains more complete information concerning the analyst's views, investors should carefully read the entire research report and not infer its contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock or investment fund should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Investment funds ratings are explained as follows:

BUY: Total returns expected to be in excess of those from the fund's benchmark

HOLD: Total returns expected to be in line with those from the fund's benchmark

SELL: Total returns expected to be lower than those from the fund's benchmark

Total return is defined as the movement in the share price over the medium- to long-term, and includes any dividends paid.

Distribution of Westhouse Securities Limited's investment funds recommendations:

Westhouse Securities Limited must disclose in each research report the percentage of all investment funds rated by the member to which the member would assign a "BUY", "HOLD" or "SELL" rating, and also the proportion of relevant investments in each category issued by the issuers to which the firm supplied investment banking services during the previous twelve months. The said ratings are updated on a quarterly basis. This recommendation system differs from the recommendation system used on non-Investment Fund research.

Investment Funds recommendation breakdown: 31 December 2012

	BUY	HOLD	SELL
Overall Investment Funds coverage	81.3%	0.0%	18.8%
Funds to which Westhouse has supplied investment banking services	100.00%	0.0%	0.0%

Source: Westhouse

Westhouse has provided investment banking services to this company within the last 12 months.

Westhouse acts as a market maker or liquidity provider for this company

The company has seen this research but no material changes have been made as a result.

Utilico Investments Limited has an interest of approximately 45% in Bermuda National Limited, which in turn has an interest of approximately 46% in Westhouse Holdings PLC, the parent company of Westhouse Securities Limited.

Analysts' remuneration is based on a number of factors, including the overall results of Westhouse Securities Limited, to which a contribution is made by investment banking activities. Analysts' remuneration is not based on expressing a specific view or recommendation on an issuer, security or industry.

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