Green Infrastructure Fund

Q1 2023 Commentary

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PERFORMANCE

	3 Months	ITD*
Fund Performance (B Class)	-4.2%	0.8%
IA Infrastructure	-1.8%	-4.0%
Sector Quartile	3	2

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested. *Inception: 28 September 2022

MARKET REVIEW

The first quarter of 2023 was challenging for infrastructure, as rising interest rates put upward pressure on the discount rates used to estimate the value of investment companies' assets, potentially reducing their NAVs and putting downward pressure on their share prices. The market seemed largely to fail to take into account offsetting factors, such as strong cash-generation benefitting NAVs in the short term, and high levels of inflation-linkage supporting NAVs over the longer term.

Europe made good progress in increasing its gas storage over the course of the mild winter, increasing its ability to phase out Russian imports going forward, which should have a moderating impact on power prices. Despite this, renewable energy generators have generally locked in exposure to power prices at higher than long term average levels. Lower forward prices also reduce the risk of increasing political interventions, and has a dampening effect on NAV volatility.

In the UK, after the disastrous "mini budget" put forward by the Truss administration, the new government's Budget statement was thankfully largely a non-event, although it raised some eyebrows by confirming that the UK would consider nuclear energy an environmentally sustainable source of energy.

PERFORMANCE & ACTIVITY

The EdenTree Green Infrastructure Fund, along with the broader infrastructure sector, declined over the quarter. Although the fund does not have an official benchmark, those who keep track of the broader global infrastructure market will have noted that less sustainable areas, such as Mexican airports, delivered strong outperformance relative to the sustainable segment of the market. The fund has nevertheless delivered a positive total return since inception, during which time the broader IA Infrastructure sector has declined. The fund continues to generate satisfactory income while maintaining a stable capital base.

Post the reporting period, the fund estimated its second quarterly dividend at approximately 1.18 pence per share for the quarter (B Class), payable to shareholders on the register on the 3rd of April 2023. This is slightly below the previous quarter's dividend payment, but we believe the dividend outlook for holdings within the portfolio has improved, and we continue to believe annualised dividend yields should be well above 5%, based on past payments and prospective yields in the current portfolio, relative to the share price at the time of writing. We are pleased to say this remains considerably above our estimated long term inflation forecasts.

Interestingly, among this quarter's top performers were both Greencoat UK Wind and Bluefield Solar Income Fund, demonstrating the importance of diversification across underlying technologies and power price strategies. Bluefield Solar Income Fund fixes its power price exposure for the long term, while rolling its power price hedges on a quarterly basis, giving them some of the most visible long term revenues in the industry. At the other end of the spectrum, Greencoat UK Wind focuses on participating in the upside available through its high exposure to floating merchant power prices. Despite their

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very different approaches, both were able to generate good returns, delivering very strong cash flows and dividend cover. Detractors over the period included GCP Infrastructure Investments, SDCL Energy Efficiency Trust, and the Triple Point Energy Transition Company.

Over the course of the quarter, we added a position in Atrato Onsite Energy, an investment company that specialises in rooftop solar as well as ground-mounted installations with long term power purchase agreements in place – often directly providing energy to customers on adjacent land to the solar installation.

News relating to positive environmental outcomes from our holdings over the period under review included the following:

- Cadeler published its annual report for 2022, in which it stated that Cadeler had installed 540 wind turbines and 528 wind turbine foundations over the company's life.
- Foresight Sustainable Forestry deployed more of its capital, and ended the period with a portfolio covering 11,743 hectares, including over 4,000 hectares of afforestation assets.
- During the quarter, we had the opportunity to inspect Harmony Energy Income Trust's Pillswood site, which, with its capacity to store up to 196MWh in a single cycle, is Europe's largest battery energy storage site.

OUTLOOK

Listed infrastructure continues to trade at depressed valuations relative to historical averages against a backdrop of higher interest rates, but the companies themselves have proven to be robust in this environment. Most have posted strong earnings and dividend growth, most have little refinancing risk, and most have positive developments that have offset the effect of rising discount rates. We believe this creates an attractive entry point into the asset class. The imperative to address climate change is going nowhere. Nor is the drive for countries to improve energy security by building out local power generation capabilities, and renewable energy remains the most timely and cost-effective way of doing this. We believe these trends will continue to underpin the sector for decades to come, and we continue to believe that we are positioned well to support these important developments with investments that will continue to deliver strong returns for our investors.

For further information please speak to your normal EdenTree representative, visit **www.edentreeim.com** or call our support team on **0800 011 3821**

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