Green Infrastructure Fund

Q4 2022 Commentary

Performance with principles®

PERFORMANCE

	3 Months	ITD*
Fund Performance (B Class)	1.8%	5.2%
IA Infrastructure	0.6%	-2.8%
Sector Quartile	2	1

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

MARKET REVIEW

On 28th September 2022, the EdenTree Green Infrastructure Fund launched into a perfect storm for the sector. Newly appointed UK Prime Minister Liz Truss and Chancellor Kwasi Kwarteng had put forward a disastrous "mini-budget" mixing unfunded tax cuts with aggressive economic stimulus, resulting in upheaval across financial markets. Gilt markets suffered their sharpest downward moves in decades, and Sterling plummeted to an historic low, almost reaching parity with the US dollar. Traders were expecting emergency rate rises, and risk assets like equities fell sharply in response. Renewable infrastructure assets were not immune, as the upward pressure on interest rates would be negative for NAVs in the sector, as discount rates would most likely have to rise in response. What followed was a political whirlwind that ultimately led to Truss stepping down. New Prime Minister Rishi Sunak and his Chancellor Jeremy Hunt ultimately reversed most of the previous government's policies and restored confidence the UK government, leading rates to normalise again. We believe that this period of upheaval, with rapidly changing inflation assumptions, interest rate assumptions, and currency assumptions demonstrated the value of active management within the infrastructure sector. We were able to take advantage of the way in which different companies in the sector had varying sensitivities to such changing factors to capitalise on inefficiencies within what remains a nascent market for listed infrastructure and achieve what we believe to be good entry points for the fund's initial investments.

PERFORMANCE & ACTIVITY

Although the EdenTree Green Infrastructure Fund has no official benchmark, it was pleasing to see that it outperformed the IA Infrastructure sector both since inception and over the period under review, delivering a positive price return of 1.8% over the quarter whereas the sector generated a total return of 0.6%. Post the reporting period, the fund also estimated its maiden dividend at 1.46 pence per share for the quarter (B Class), payable to shareholders on the register 3rd of January 2023. This is equivalent to an annualised dividend yield of 5.6% relative to the share price at the time of writing, which we are pleased to say is considerably above our estimated long term inflation forecasts.

UK-listed infrastructure share prices were affected by the political upheaval in the UK, leading to volatility at the beginning of the period under review, although this eventually stabilised. Among the biggest contributors to positive performance over the quarter was Harmony Energy Income Trust, which generated a total return of over 11%; part of this rise can be attributed to the successful energisation of its Pillswood site, the first of its battery energy storage projects to become operational. We also saw particularly strong performance from some of the funds non-income-generating diversifiers, such as wind turbine installation vessel operator Cadeler; its share price rose amid news of contract wins, further vessel orders, and positive read-across from competitor news. The portfolio currently has 18 positions, with the overall portfolio weighted in favour of our *Secure Income* category.

Some examples of positive environmental outcomes achieved or declared by our holdings over the period under review include the following:

- SDCL Energy Efficiency Income Trust released its annual ESG report, declaring that its portfolio had saved over 1 million tonnes of CO_2 emissions through energy efficient solutions over the year ending 31st March 2022.
- Harmony Energy Income Trust energised the largest battery energy storage project in Europe, with the capacity to store up to 196MWh in a single cycle, equivalent to powering 300,000 UK homes for two hours.
- Foresight Sustainable Forestry reached 514,000 trees planted since its incorporation in August 2021.

OUTLOOK

2022 was an extraordinary year, with power prices in Europe rising to over €300/MWh, as reduced gas imports from Russia coincided with hydroelectric and nuclear power production declining. This supported renewable energy generators, carbon markets, and other relevant investments for the fund. Governments worked hard to stabilise power prices through imposing price caps, but energy demand is rising, and the drive towards net zero continues unabated. In the UK, a 45% windfall tax on electricity sold above £75/MWh is to be applied from 1st Jan 2023 until 31st March 2028. Although this level is far below recent merchant power prices, it is still 1.5x the average price over the decade preceding the Ukraine war. It is also worth noting that the tax will not apply to many of the sources of income relevant to our holdings, such as CFDs, ROCs, or battery storage revenues. Alongside this, UK inflation is set to average 7.4% through 2023 (according to the IMF), which should continue to support investment into this sector that benefits from high levels of inflation-linkage. As we look further ahead, the International Energy Agency (IEA) has forecast that solar power will become the largest source of global electricity generation by 2025, and that the world will add twice as much renewable energy capacity from 2022 to 2027 as it did in the previous five years. With this in mind, we remain constructive about the outlook for green infrastructure in the years ahead.