# EdenTree Green Infrastructure Fund

Q1 2025 Commentary

edentree investment management

## PERFORMANCE

| | 3 Months | 6 Months | 1 Year | ITD* |
|---|---|---|---|---|
| Fund (B Class) | -0.7% | -9.6% | -2.5% | -15.5% |
| IA Infrastructure** | 2.5% | -0.2% | 7.4% | 0.2% |
| Sector Quartile | 4 | 4 | 4 | 4 |

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.
Inception Date: 28th September 2022
Data as at 31.03.2025

## MARKET REVIEW

The first quarter of 2025 was a volatile one, with infrastructure equity markets declining sharply in January before recovering most of their losses in February and March. Overall, infrastructure equity markets delivered a slightly negative total return over the quarter.

In the UK, a worsening inflation outlook caused investors to reduce expectations for cuts from the Bank of England (BoE). Globally, bond yields rose sharply as markets anticipated the impact of tariffs from incoming US President Donald Trump. This high-yield environment was expected to be negative for infrastructure valuations, with the market giving the sector, in our view, insufficient credit for its inflation-mitigating characteristics.

This context was combined with a negative operational backdrop for many renewables, with power prices having retreated from highs and wind speeds well below 20-year averages in the fourth quarter of 2024.

When push came to shove, the BoE delivered a fairly dovish 25 basis point rate cut in February, with two members of the Monetary Policy Committee voting to cut by 50 basis points. Battery energy storage revenues recovered strongly, helping this sub-sector recover from recent lows.

## PERFORMANCE & ACTIVITY

Negative performance in the first part of the quarter seemed to be more expressed among green infrastructure names than the broader infrastructure sector. We saw more positive contributions to performance from our high return potential category than our secure income category, reflecting the volatility of share prices and the negative valuation effects for steady income streams as a result of yields rising. Within the green infrastructure framework, the strongest performance came from investments within energy storage and efficiency as well as water management. The worst performance came from investments within the core energy generation category.

Major specific detractors this quarter were Cadeler, Greencoat UK Wind and The Renewables Infrastructure Group. The latter two companies suffered not only from negative weather conditions but specifically from exposure to Scottish wind assets, given the market concern about the UK Government's Review of Electricity Market Arrangements (REMA) potentially leading to zonal pricing that could reduce revenues from these assets. We would argue that an unmitigated negative outcome here is both unlikely and priced in; the kind of zonal pricing that would punish existing wind generators in Scotland would likely raise the cost of capital for renewables, making it difficult for the government to achieve its Clean Power 2030 goals. A decision is due in the summer, with any pricing changes not likely to take place until well into the 2030s.

The top-performing holdings during the quarter included Gore Street Energy Storage, Cambi and Target Healthcare. Gore Street Energy Storage benefitted from higher battery revenues, as mentioned above, as well as from positive valuation read-across from its peer Harmony Energy Income, which received takeover bids from both Foresight Group and Drax.

There was no major transaction activity in the fund over the quarter, although we continued to build a small position in Cambi, a Norwegian-listed global provider of wastewater treatment solutions, which performed well during the period.

The fund formally adopted the SDR Sustainability Impact label on 29 November 2024. This has resulted in us augmenting our pre-existing thematic investment and engagement approaches with an additional engagement layer where we seek to enhance an asset's positive impacts on behalf of investors in the fund. Following are examples of our related activities:

- We engaged with one of our holdings to encourage improvements to the company's end-of-life strategy. New solar panel recycling regulations in Japan have introduced a new cost burden on the industry. While this will only become meaningful in the 2030s, markets have already started to discount the impact of the new regulations. We have encouraged the company to take steps to alleviate that risk, which should have potential positive benefits in terms of its market standing and longer-term growth trajectory, as well as reducing the environmental impact of used panels.
- At a time when some shareholders with a shorter-term view than ours seem to be indicating a preference for less selective asset sales and more immediate return of capital, we engaged with several UK-based listed infrastructure companies to re-affirm our commitment to their longer-term capital and their operational and wider impact strategies.
- We have also started engagements with two holdings to improve intentionality through clearer alignment of management incentives and to improve reporting to enhance investor awareness of impact outcomes.

## OUTLOOK

From a fundamentals perspective, nothing much has changed since the last quarter. The impact of higher discount rates continues to be mitigated by inflation-linked revenues, and asset sales in the sector continue to support asset values carried in fund net asset values (NAVs). In the past, share price total returns for infrastructure investment trusts have tended to gravitate towards NAV total returns, and we see no reason to believe this long-term dynamic has changed, indicating to us that the current environment represents a buying opportunity.

Potentially lower merchant power prices in the years ahead could threaten some companies in the sector, but we do not believe our holdings are particularly exposed to this. On the contrary, we believe our holdings generally have a strong track record of hedging and fixing power prices appropriately and are generally set up to deliver strong covered dividends from contracted cash flows. While we have welcomed some asset sales that have achieved good capital recycling objectives alongside NAV verification, we are wary of companies disposing of too many assets. We are encouraging those who are able to do so to remain cognisant of needing to maintain a strong asset base for future dividend cover and future positive environmental impact.

Despite a possibly weakening consensus on global decarbonisation policies, we believe most countries continue to understand the benefit of the energy transition. We also believe the need for investment in renewable energy is strengthened by the growth of data centre demand and AI-related activities. We think current green infrastructure valuations represent an attractive opportunity to gain exposure to future growth alongside a steady source of inflation-linked income.

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| PERFORMANCE DISCRETE | 12 Months to 31/03/2021 | 12 Months to 31/03/2022 | 12 Months to 31/03/2023 | 12 Months to 31/03/2024 | 12 Months to 31/03/2025 |
|---|---|---|---|---|---|
| Fund Performance (B Class) | | | | -14.0% | -2.5% |
| Benchmark (MSCI ACWI Net TR GBP) | | | | -2.9% | 7.4% |
| IA Global | | | | 4 | 4 |
| Sector Quartile | | | | | |

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.

Past performance is not necessarily a guide to future returns.

*Inception: 28 September 2022
**As the Fund will invest in companies involved in the ownership, operation or maintenance of infrastructure assets, investors may compare the Fund's performance to the Investment Association Infrastructure Sector. Funds in this sector must have at least 80% of their assets (directly or indirectly) in companies involved in the ownership, operation or maintenance of infrastructure assets (including but not limited to: utilities, energy, transport, health, education, security and communications). However, the Manager is not bound or influenced by the Sector category when making investment decisions.



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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