EdenTree Green Infrastructure Fund

Q2 2024 Commentary

edentree
investment management

PERFORMANCE

	3 Months	6 Months	1 Year	ITD*
Fund (B Class)	4.7%	-4.5%	-3.9%	-9.3%
IA Infrastructure**	0.6%	-1.0%	0.5%	-6.2%
Sector Quartile	1	4	4	3

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

MARKET REVIEW

Interest rate expectations continued to be a major driver of infrastructure share price performance in Q2, which was negative in the first weeks of the period as economic data in the US moderated expectations of imminent interest rate cuts. In the UK, to which the Fund is more exposed than it is to the US, while inflation proved more stubborn than initially expected, it was clear by June that inflation was finally declining to the 2% level that could potentially enable deeper rate cuts later in the summer. This had a positive effect on infrastructure equities. The UK forward power price curve declined in Q1 (reported in Q2), but our energy-generating holdings have a high degree of power price fixing over the near term. GB battery revenue data showed a narrowing of trading spreads throughout most of Q1 (reported in Q2) but with revenues increasing towards the end of the quarter, helped by National Grid rolling out its new market for Balancing Reserve services in mid-March.

PERFORMANCE & ACTIVITY

After an uneventful start to the quarter, the Fund delivered strong performance from mid-April onwards, delivering first-quartile performance in its peer group over the period under review. Although not quite rising to the recent highs seen at the end of 2023, the infrastructure market was, in our view, starting to show some signs of a stabilising recovery.

Following on from a number of individual asset sales having taken place at prices well above carrying values over the past few months, we are now also beginning to see increasing corporate activity, as private equity begins to take advantage of depressed equity market prices to snap up attractive infrastructure assets and businesses. EQT kicked off this trend on May 13th with its bid to take Swedish renewables developer OX2 (not held) private in a deal that values OX2's equity at SEK16.4bn, representing a 43% premium to the previous closing price. Two of our contributors to positive performance this quarter benefitted from similar corporate activity. A couple of weeks after the EQT/OX2 deal was announced, Atlantica Sustainable Infrastructure (held) announced it had entered into a definitive agreement to be acquired by a vehicle controlled by Energy Capital Partners; this deal actually represented a slight discount to the previous closing price, as the deal had been agreed in April (at an 18.9% premium to the closing share price at that time) and bid rumours had driven the share price up ahead of the announcement; nevertheless, Atlantica generated a total return of more than 21% over the period under review; we reduced the position at the time of the bid announcement to reduce deal risk, but have maintained a smaller position, which we expect will continue to pay dividends until the deal is completed. The day after the Atlantica deal was announced, another holding announced a deal: Foresight Sustainable Forestry received a cash offer from a vehicle managed by its investment manager (Foresight Group) to acquire the business for £167m, representing a 32.9% premium to the previous closing price. We believe these developments continue to show the value represented by the deep discounts to net asset values at which stocks in this sector largely continue to trade.

We continued to increase diversification in the Fund through investments in National Grid and Elis. Elis is our first investment into the Circular Economy category of our Green Infrastructure Framework; its business is focused on rental and cleaning of textile and hygiene articles like workwear, linen, etc. Elis owns the real assets (in terms of both plant and materials) that provide the service of delivering clean textiles on an industrial scale. It is an asset-intensive industry with capital investment needed to cover laundries, trucks, and linen, falling within our broader definition of real asset based infrastructure with positive environmental outcomes. Compared to a model where businesses buy and wash their own textiles, Elis states that their offering provides a 35% CO2 emissions saving. National Grid plc owns and operates the regulated high-voltage electricity transmission network in England and Wales, as well as the UK's largest regulated electricity distribution business. We view it as an enabler of the low carbon energy transition. As part of its recent rights issue, National Grid stated that of its £60bn capex programme to take place between FY25 and FY29, £51bn (85%) is expected to be green investment aligned to the EU taxonomy.

News relating to positive environmental outcomes from our holdings included the following:

- Atrato Onsite Energy announced two asset purchases under the period under review. They announced in May that they had invested in 9.5MW of additional solar assets, expected to save 1,700 tonnes of CO2e per year and power an equivalent of 2,800 UK homes per year. They announced in June that they had acquired a further 13MW solar portfolio, expected to provide 2,200 tonnes of CO2e per year and power an equivalent of 3,800 UK homes per year.
- Cadeler announced in June that it had signed a firm contract for the installation of 72 15MW wind turbines at Inch Cape Offshore Wind Farm. When the entire wind farm is completed, it will generate enough energy to power the equivalent of approximately 1.6 million UK households.
- JLEN published full-year results stating that their portfolio had diverted 680,825 tonnes of waste from landfill over the year, and had led to 212,917 tonnes of CO2e emissions being avoided.

OUTLOOK

Following the reporting period, Labour won the UK election by a landslide. Green infrastructure stocks performed well in the aftermath of this and, we believe, for good reason. Infrastructure has been trading at deeply depressed valuations for some time now, but many investors have been delaying a return to the sector, in anticipation of a catalyst for a more sustained share price recovery. We believe this election result may be what they have been waiting for. While it was not news to anyone that Labour had made strong manifesto commitments to the energy transition, I think many were positively surprised to see immediate tangible action from the incoming government, which reversed the de facto ban on building new onshore wind farms in the UK within days of coming to power. Since 2015, onshore wind development has been almost impossible in England due to a national policy planning framework blocking projects from going ahead if they faced a single objection. By removing these restrictive clauses, new Chancellor Rachel Reeves could legitimately claim to have done more for onshore wind development in England than previous governments had done in over a decade, marking a significant advancement in renewable energy support and opening up a pipeline of investment potential. While the move may be less directly financially relevant to infrastructure companies currently trading at wide discounts to underlying net asset values and unable to raise equity for new wind farm developments, the announcement clearly signalled that the government's commitment to green energy is the real deal, and served as a reminder to investors that the energy transition is a long-term project, requiring private capital, driven by the prospect of material returns. We believe developments like these could underpin the listed infrastructure markets for years to come.

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PERFORMANCE DISCRETE	12 Months to 30/06/2020	12 Months to 30/06/2021	12 Months to 30/06/2022	12 Months to 30/06/2023	12 Months to 30/06/2024
Fund Performance (B Class)					-3.9%
IA Infrastructure**					0.5%
Sector Quartile					4

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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