# EdenTree Green Infrastructure Fund

## Q3 2024 Commentary

## PERFORMANCE

| | 3 Months | 6 Months | 1 Year | ITD* |
|---|---|---|---|---|
| Fund (B Class) | 3.0% | 7.8% | 5.0% | -6.6% |
| IA Infrastructure** | 7.0% | 7.6% | 13.4% | 0.4% |
| Sector Quartile | 4 | 2 | 4 | 4 |

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

## MARKET REVIEW

Infrastructure markets in the UK responded positively to the Labour victory in the general election that took place at the beginning of the reporting period. Partly this was grounded in Labour's more vocal backing for the energy transition, but the new government also took tangible action, such as by reversing the de facto ban on building new onshore wind farms in the UK, and by increasing the budget for this year's renewable power subsidy contract auction by 50% to an all-time high well above £1.5bn. The market also initially responded positively to the Bank of England cutting rates by 25bps to 5.0%, and the US Federal Reserve cutting rates by 50bps, setting its federal funds rate range to between 4.75% and 5.0%. This positive sentiment was moderated by a slight reversal in Q3 of the strengthening power price trend seen in Q2, although the negative impact here was limited by fixed revenues and large sections of the power price curve dipping below the threshold for the Electricity Generator Levy. All in all, it has been a positive quarter for green infrastructure.

## PERFORMANCE & ACTIVITY

We were pleased to see that Q3 once again delivered a quarter of positive returns for the fund. The top-performing financial category in the fund over the quarter was our core secure income category, which gives some credence to the idea we raised last quarter that the infrastructure market may be showing signs of a stabilising recovery. Top contributors to positive performance this quarter included Renewables Infrastructure Group, Greencoat UK Wind, and National Grid. It was particularly pleasing to see National Grid perform so well, as the company rose more than 16% in the quarter to trade at levels similar to where the stock was trading prior to its recent rights issue. We believe this is an indication that the market has come to understand the strategic rationale behind National Grid's ambitious capex plans, which we believe positions the company to be an enabler of the energy transition. Otherwise, renewable generators in general suffered from below-budget irradiation and wind resource, but were still able to generate relatively stable revenues, proving that generation is more robust to varying weather patterns than many may have realised, and also demonstrating the value of using some level of power price fixing to stabilise revenues.

This quarter, the diversifier category was a poor performer, with carbon prices – to which we are exposed through our investment in EU carbon allowances – falling, as well as the share price of Elis falling on reports the company was considering making an expensive acquisition; the acquisition discussions in question were eventually terminated, and the stock made a partial recovery post reporting period. It should be noted that the diversifier category remains the top-performing financial category in the fund year-to-date and since inception.

During the quarter, we sold out of Triple Point Energy Transition, after it seemed it was having problems with payments for its debt investment in three Combined heat and power (CHP) facilities, causing us to reduce our valuation. We rotated into Octopus Renewables Infrastructure Trust (ORIT).

We believe ORIT to be a company with strongly positive environmental outcomes and a highly contracted revenue stream backing a historically inflation-linked dividend. ORIT's share price, however, had, over the recent period of poor performance for the infrastructure sector, fallen to trade not just at a discount to net asset value, but at a discount to peers, which we considered to be either irrational or based on factors that are changing (such as elevated floating rate debt now being paid off with proceeds from asset sales).

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

- The engagement work undertaken on the holdings of the fund was nominated for Best Sustainable Investment Engagement Initiative at the 2024 Investment Week Sustainable Investment Awards. Although we didn't ultimately win, we were pleased with the recognition for our work on the just transition in renewable energy.
- Gore Street Energy Storage published its ESG and Sustainability Report for the 2024 financial year, reporting that its operational portfolio avoided 15,178 $tCO_2e$ and stored 26,232MWh of renewable energy.
- There were a number of positive updates from Cadeler. The wind turbine installation vessel fleet owner took delivery of its fifth vessel, delivered on time and within budget. This vessel can transport and install seven complete 15MW turbine sets or five sets of 20+MW per load, reducing the carbon footprint of installation per turbine. The vessel is also designed to be able to use biofuels and save excess energy for reuse. Furthermore, Cadeler signed a vessel reservation agreement for a pipeline of projects in the Asia-Pacific which is estimated could meet the energy needs of approximately 1.36m households when operational.

## OUTLOOK

After two quarters of positive returns, rate cuts in global markets, positive regulatory developments related to investment trust cost disclosures, and, now, a supportive government in place in the UK, we believe the green infrastructure sector is positioned well for a more sustained recovery. These improvements in the market only strengthen the long term investment case for green infrastructure. Bloomberg recently estimated that almost $1.8 trillion US dollars was spent on energy transition investment in 2023 alone, with trillions left to be invested in the years ahead. This is driven both by net zero targets enshrined in law by governments around the world and by the increased focus on energy security, given low cost and short construction timelines for renewable energy. Beyond this, as companies like Microsoft (with a target to be carbon-negative by 2030 and to have offset all its emissions by 2050), expand into hugely energy-intensive AI-related activities, they are seeing emissions increase, stimulating urgent demand for renewable energy. At the same time, we believe the assets that can provide this energy are currently undervalued by public markets, trading at discounts to net asset values, at a time when several billion pounds worth of assets have traded at or above carrying values. We believe there are now both trends that should underpin green infrastructure returns over the long term and short term catalysts in place that make this an interesting time to invest in green infrastructure.

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| PERFORMANCE DISCRETE | 12 Months to 30/09/2020 | 12 Months to 30/09/2021 | 12 Months to 30/09/2022 | 12 Months to 30/09/2023 | 12 Months to 30/09/2024 |
|---|---|---|---|---|---|
| Fund Performance (B Class) | | | | -13.9% | 5.0% |
| IA Infrastructure** | | | | -8.4% | 13.4% |
| Sector Quartile | | | | 4 | 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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