EdenTree Green Infrastructure Fund

Q4 2024 Commentary

PERFORMANCE

	3 Months	6 Months	1 Year	ITD*
Fund (B Class)	-8.9%	-6.2%	-10.4%	-14.9%
IA Infrastructure**	-2.5%	4.3%	3.3%	-2.1%
Sector Quartile	4	4	4	4

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.
Data as at 31.12.2024

MARKET REVIEW

Over the final quarter of the year, the infrastructure market once again returned to behaving like a leveraged bond proxy, erasing the recovery that took place in the previous two quarters, mostly in response to news flow indicating increased interest rate expectations. The sharpest decline took place in November, largely, it would seem, in response to Donald Trump being elected the next President of the US. His tariff-based policies were seen as likely to be inflationary, therefore reducing the likelihood of interest rate cuts, which could have a negative effect on the valuation of infrastructure assets. Furthermore, green infrastructure in particular participated in the broader drawdown experienced by all kinds of renewable energy shares, which fell on concerns that Trump would put an end to the US's nascent offshore wind sector, or even scrap the Inflation Reduction Act and the related tax credits that renewables-focused companies have benefitted from. This also coincided with a period where wind speeds for October and November were well below 20-year averages, contributing to negative sentiment for companies with exposure to wind power, as some market participants perhaps failed to take into account the large proportion of fixed contractual revenues generated by the wind generators.

PERFORMANCE & ACTIVITY

Our analysis suggests that less green funds in the sector have outperformed those that focus exclusively on clean energy, with the EdenTree Green Infrastructure Fund delivering performance somewhere between the two. The fund also suffered from having very limited exposure to the US dollar, which strengthened significantly over the period under review. Despite disappointing share price returns, the fund has continued to pay out what we would consider to be a strong quarterly dividend.

Over the period under review, the biggest detractors were in the Energy Generation category of the Green Infrastructure framework. Partially, this may relate to nervousness around low wind speeds in the UK, combined with the "Trump effect", but there were also a few stock-specific factors worth mentioning. Foresight Environmental Infrastructure was the worst-performing holding over the period. Its share price dropped sharply after it stated in November that it would have to write down to zero a failed investment in the more speculative hydrogen/development segment of its portfolio, accounting for almost 3% of its net asset value. At one point during the day of the announcement, the share price had dropped almost 9% on the news, and over 20% over the period under review (although including the dividend, it delivered a total return of 18%). At the time, it was already trading at a discount to NAV over 25%, and management stated that dividend would not be impacted by this write-down. After meeting with management to reassure ourselves that this sudden write-down was a legitimate result of circumstances relating to this particular investment, and that risk was localised to this part of their portfolio, we determined that the drawdown represented a market overreaction, and chose to maintain our position.

There were also some strong positives over the quarter. Following on from the announcements of the acquisitions of Atlantica Sustainable Infrastructure and Foresight Sustainable Forestry in Q2, this quarter saw another one of our holdings announcing it would be taken private. Atrato Onsite Energy received a cash bid for the entirety of its portfolio from a joint venture owned by Brookfield and RAIM Apollo, with the deal representing a 25% premium to the undisturbed closing price. This goes some way to validate our view that the difference between public market and private market valuations for green real assets is not sustainable, and that private money could continue snapping up bargains if the discounts remain as they are today. Our exposure to EU carbon allowances also made a positive contribution to this quarter's performance. This shows the benefit of having such a hedge in the portfolio; during a period where there was lower wind generation and high gas prices, the short-term marginal cost of gas dipped below that of coal, increasing emissions, and increasing demand for carbon allowances.

The perhaps most noteworthy transaction to take place over the quarter was that we initiated a new position in Swedish forestry owner Holmen. At its core, Holmen makes money by owning forest, which it manages sustainably, so that forest growth exceeds harvesting over time, safeguarding capital and storing carbon. This investment has enabled us to regain exposure to forestry assets after Foresight Sustainable Forestry was taken private earlier in the year. During the quarter we also took some profits from our position in Cadeler, after a very strong run for the wind turbine installation vessel fleet owner; we remain invested.

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

- We were pleased to be able to confirm over the quarter that we will be adding the "Sustainability Impact" label to the EdenTree Green Infrastructure Fund under the FCA's Sustainability Disclosure Requirements (SDR) regime. Among other things, this means that we will publish an annual sustainability report, which will include data on things such as carbon emission avoided and renewable energy generated.
- Holmen stated in its annual report published this year that, in 2023, Holmen created a climate benefit of 7.5 million tonnes of CO_2e across a variety of different vectors, such as its wood products replacing fossil materials, and carbon being stored in its forests.
- National Grid published its half-year results, where it confirmed it had completed the sale of the final 20% equity interest it had held in National Gas Transmission, further emphasising the evolution of its strategy to focus on pureplay energy networks enabling the energy transition. Supporting this, they were also able to report good progress on the Eastern Green Link 1 and Eastern Green Link 2 projects, which will help unlock Scotland's renewable energy reserves.

OUTLOOK

The fundamentals of green infrastructure businesses remain strong: the impact of higher discount rates has been mitigated by inflation-linked revenues, valuations have been repeatedly verified by material asset sales taking place above carrying values, and company boards have supported shareholders with ambitious share buyback programmes. While there may be cause for concern about the political environment in the US, there are a number of reasons why we think the market is overestimating, misunderstanding, and mispricing the impact of the Trump win on green infrastructure assets. Trump's rhetoric is seldom identical to his capacity and willingness to act; during Trump's previous presidency, wind development continued apace, and many of his policies were successfully challenged in the courts. Republican states are among the major beneficiaries of tax credits related to the Inflation Reduction Act. That is not to say that the risks posed by a Trump administration should be ignored, or that those risks should not be priced appropriately when making investment decisions – with this in mind, we have only minimal and indirect US exposure in the portfolio at present – but it does mean that it should not be taken as given that the Trump win sets the tone for the value of the global market for green infrastructure assets. In the UK, we have seen the election of a government far more supportive of renewable energy than its predecessor government was, and there have been positive regulatory developments related to investment trust cost disclosures. Over the longer term, despite some blustery rhetoric, we are still excited about the investment opportunity represented by the energy transition. The path towards net zero remains enshrined in law by governments around the world, and achieving this transition will require trillions of US dollars of investment. If anything, the need for investment in renewable energy has become stronger, as companies like Microsoft (with a target to be carbon-negative by 2030 and to have offset all its emissions by 2050), are now rapidly expanding into hugely energy-intensive AI-related activities and seeing emissions increase. It is hard to see how one could see a strong investment case for companies involved in building out AI technology, without also seeing the related investment case for the assets that will generate the power they require. In our view, the discounts to net asset values at which green infrastructure companies are trading at present represent an attractive opportunity to gain exposure to future growth. We think there is every reason to expect strong returns from green infrastructure in the years ahead.

PERFORMANCE DISCRETE	12 Months to 31/12/2020	12 Months to 31/12/2021	12 Months to 31/12/2022	12 Months to 31/12/2023	12 Months to 31/12/2024
Fund Performance (B Class)				-9.7%	-10.4%
Benchmark (MSCI ACWI Net TR GBP)				-2.8%	3.3%
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.

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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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