THIS IS A MARKETING DOCUMENT

Ecofin Sustainable Listed Infrastructure Strategy

Q2 2022 QUARTERLY COMMENTARY

Strategy objectives

The strategy provides globally diversified exposure to the equity securities of growth-oriented economic infrastructure companies which are committed to the energy transition and have fundamentally strong or rapidly improving environmental, social and governance ('ESG') credentials. The investment objective is to achieve a total return of 6-12% per annum over the long-term, including an income yield of approximately 4% per annum while taking care to preserve capital.

ELECTRIC & GAS UTILITIES

Generation, Transmission & Distribution of Electricity, Gas and Liquid Fuels and Renewable Energies

TRANSPORTATION SERVICES

Roads, Railways, Ports and Airports

ENVIRONMENTAL SERVICES

Water Supply, Wastewater, Water Treatment and Waste Management

Market overview

It was a dismal quarter for equity markets and seemingly all financial and commodity markets experienced extreme volatility. Global equities fell sharply (the MSCI World Index dropped by 10.2%), compounding the first quarter's losses. Central bank interest rate rises were underway in major markets to tackle very high inflation rates stoked by pandemic-induced shortages and the upheaval caused by the war in Ukraine, and benchmark 10-year government bond yields rose sharply for much of the period on concerns about more entrenched inflation. China's extended Covid lockdowns were incrementally jeopardising global supply chains and contributed to the risk-off mood. By May, thoughts turned to the restraint on growth that higher policy rates would likely deliver, there was a moderation in rate rise expectations and longer term yields fell once again with weak economic data emerging globally.

The strategy's utilities performed relatively well while risks radiated for the global economy and markets tried to price in lower growth. Generally strong earnings also encouraged sentiment. Renewables names, which had been under pressure for many months, came back to life as fossil fuel commodity prices moved even higher. More generally, inflation pass-throughs in infrastructure company business models contributed to portfolio shares generally holding up well in the nervous markets.

High oil and natural gas prices continued to underpin higher power prices on both sides of the Atlantic. European carbon prices remained strong too. For renewables operators, power purchase agreement (PPA) appetite has grown significantly in Europe amongst commercial and industrial buyers keen to lock in cost bases; price inflation in PPAs in the U.S. is also material with operators at least able to pass on cost increases they are experiencing. In both regions this marked an about-face in pricing power.

The affordability – and availability – of energy in Europe continued to be a major political issue and these pressures remained a burden for stock prices. Some Continental names were also reflecting stressed hydro output in Iberia and northern Europe as drought conditions continued. The UK government's imposition of a windfall levy on the profits of oil & gas companies operating in the UK for the next 12 months hit the share prices of UK electricity generators too, for fear their profits could also become a target. The actual impact of windfall measures instituted in Europe and the UK this year appear less stringent than initially feared though, and in our meetings with companies the feedback has been consistent: companies are seeking to reduce exposure to Russian gas flows ASAP, pricing realisations are extremely favourable, margins have expanded, and 10-15 year solar and wind PPA prices have increased 10-20%. Engie, for example, raised guidance in April due to incremental output and higher power prices.

Performance and attribution

As of 30 June 2022

(All total returns in USD)	3 months %	6 months %	1 year %	3 years % per annum	5 years % per annum	ITD* % per annum
Strategy composite** (net)	-9.2	-9.4	1.6	10.1	9.7	9.1
S&P Global Infrastructure Index	-7.7	-0.9	4.8	2.7	3.9	5.0

*26 September 2016. **Strategy composite information provided in the disclaimer on final page.
Source: Ecofin Advisors Limited. Total return includes dividends paid, if any, and reinvested.
Past performance is no guarantee of future returns. Returns may increase or decrease due to currency fluctuations.

These holdings were the best and worst contributors to performance during the quarter:

Top 5 Contributors
Atlas Arteria
Atlantia
Xcel Energy
Acciona Energias Renovables
Constellation Energy

Bottom 5 Contributors
Drax
Enel
Veolia
RWE
SSE

Infrastructure names in Australia continue to be the subject of takeover interest by private capital, most recently involving **Atlas Arteria**. IFM Global Infrastructure Fund increased its ownership of Atlas Arteria to 15% in May and is considering a bid for the rest of the company. Atlas' shares responded accordingly and, if a deal comes to fruition, this will add to the series of such listed infrastructure asset takeovers in Australia (Sydney Airport, power networks owners Spark Infrastructure and AusNet).

Infrastructure group **Atlantia**, the airport and motorway operator headquartered in Rome, was the subject of a takeover offer from the Benetton family and Blackstone.

Xcel Energy is a regulated, integrated electric and natural gas utility operating across 8 states and a leader in renewable generation investment. The company has a strong record and we expect EPS growth of 5-7% p.a. to be driven by rate base growth opportunities in Minnesota and Colorado, renewables (there is above average wind resource across XEL's service territory) and transmission. Xcel was added to strategy portfolios further to the sale of PPL Corp.

The share price of **Acciona Energias Renovables**, a Spanish renewable energy company with a global asset base, was up slightly in the quarter. The company recently spun out from its parent and has ambitions for substantial growth in its renewables asset base. In addition, the company should stand to benefit from higher power prices in Europe from next year onwards as it has increasing levels of unhedged power price exposure in the years ahead.

Constellation, a merchant nuclear power generation business in the U.S., was spun out from Exelon in January 2022. The company has the largest merchant nuclear fleet in the U.S. which can benefit from growing demand for zero-carbon electricity as well as the increase in electricity prices driven higher by rising U.S. gas prices.

Drax, Enel, RWE, SSE were buffeted by the uncertainties in the European utilities sector (UK and the Continent) caused by actual or potential political interventions in the wake of energy unaffordability. Drax's shares had also been very strong for many months previously given the pellet and biomass specialist stands to benefit significantly from higher electricity prices in the UK.

Veolia, the water management, waste management and energy services giant which completed the acquisition of its competitor Suez earlier this year, saw its shares weaken as economic forecasts for Europe were pared during the quarter, affecting near term prospects for its commercial and industrial business segment.

Yield

The yield on the strategy was 3.8% at 30 June (3.5% at 31 March 2022). We saw a very strong rebound in dividend receipts in 2021 given the resilience in demand for most of the portfolio's essential services, the economics for renewable energy and a strong recovery where certain companies had been prevented from paying dividends in 2020. We anticipate that longer term growth in income will be +5-7% per annum.

Strategy

The war in Ukraine is a major short-term risk for economies but potentially marks a significant turning point in energy policies and the energy transition. A search for alternative sources to diversify natural gas supply will be a focus of attention for years to come. Although some coal and natural gas fuelled power plants are having to be run longer than planned in the short run, the longer term solution will involve alternative gas supplies, energy efficiencies and significantly more renewables and nuclear in the generation mix. This should be unambiguously favourable to most of the strategy's portfolio companies as the key enablers of this transition.

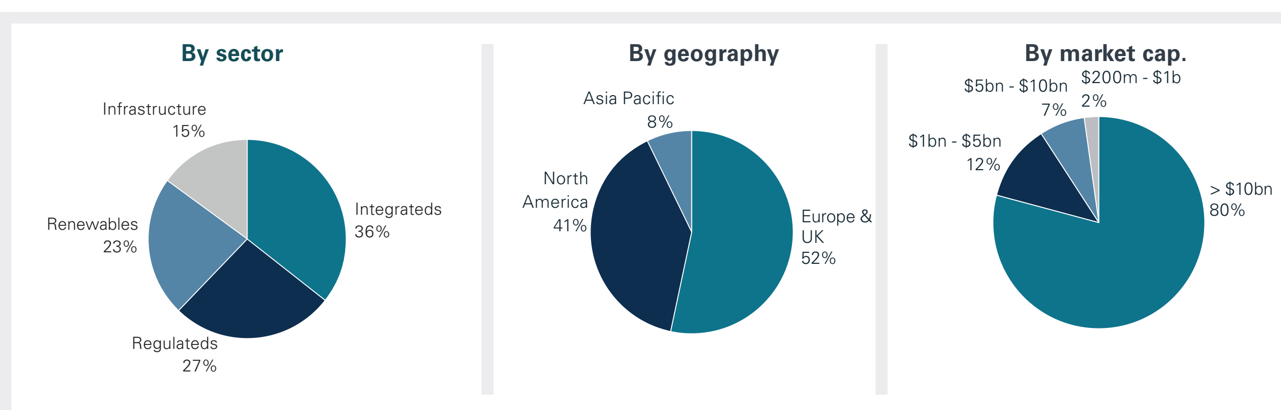
Interest rates are rising to combat sharply higher inflation which should benefit companies in the portfolio through direct adjustments in regulatory remuneration rates and/or higher commodity prices. Although utilities are often considered 'bond proxies' and therefore vulnerable to rising rates in the short term, rising prices offer considerable inflation protection in the medium to longer term.

We expect strong revenues for many power companies this year thanks to the combination of better renewables resources than in 2021 and higher power prices. This should particularly benefit companies with fixed cost generation assets and higher margins locked in through forward hedges. Longer term, an acceleration in renewables development activity as countries and companies work to improve their security of supply should lead to growth upgrades for renewables developers both in Europe and North America.

Intervention through price regulation and windfall taxes by governments trying to mitigate the impact of higher power prices on consumers is the biggest risk to higher profits at present. In our view, the share prices of many European integrated utilities already discount harsh pressure on margins.

The strategy's portfolio is performing relatively well while investors' risk appetite is diminished, helped by the inflation linkage in the pricing formulas of the companies. Equity market volatility is providing opportunities to add value but the principal source of added value will be stock selection for the long term in this broad and undervalued investment universe.

As of 30 June 2022



ESG/sustainability highlight

This strategy continues to screen well in terms of carbon emissions, i.e. tonnes of CO_2 emitted per megawatt hour of electricity generation. Ecofin does not set firm limits on fossil fuel exposure and invests in companies transitioning to better growth and ESG profiles (rather than permitting only 'clean' stocks). Nevertheless, at a portfolio level our approach delivers an emissions profile which is well within the spectrum of typical impact funds. As of 30 June, this strategy's electricity generators had CO_2 emissions which were 20% below the average emissions of the electricity grids in which the companies operate, largely because of a relatively small reliance on coal (c. 10% of the mix), and 25% lower than those of companies in the global utilities index (as measured in tCO_2/$million invested). On a forward-looking basis, specifically due to our focus on companies in transition, the portfolio's emissions profile looks even better, with almost all companies having committed to both a full phase-out of fossil fuels in the medium term and a net zero emissions target in the long run.

Index Information:

The S&P Global Infrastructure Index is designed to track 75 companies from around the world chosen to represent the listed infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation, and utilities.