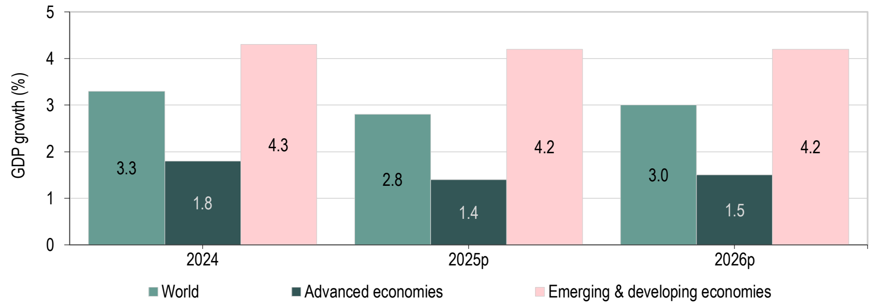
EDISON

Utilico Emerging Markets Trust

High level of optimism about the trust's future

Utilico Emerging Markets Trust's (UEM's) managers, Charles Jillings and Jacqueline Broers at ICM, are very excited about the company's future in terms of available, attractive investment opportunities. Given high levels of stock market 'noise', they feel confident about their strategy of investing in high-quality, cash-generative, emerging market assets for the long term. This approach has proved successful over UEM's 20-year life, with a 9.2% average annual NAV total return and a track record of considerable outperformance versus the MSCI Emerging Markets Index. The trust has a progressive dividend policy and an above-market dividend yield, while its annual distributions are fully covered by income. There is visible scope for a narrower discount, which would provide additional upside to the trust's total return potential.

Exhibit 1: Above-average growth prospects in emerging markets



Source: International Monetary Fund (IMF), Edison Investment Research. Note: IMF World Economic Outlook, April 2025 (p = projected).

Why consider UEM?

Jillings and Broers consider that their investment team has unrivalled knowledge and understanding of UEM's portfolio companies and sectors, which it is constantly expanding by regular travels to the emerging market regions. During these trips, team members meet with current and potential future investee businesses, at both senior and operational levels, including site visits, using their developed network of local contacts. This provides the managers with valuable information, including timely insights about changing business conditions.

In August 2025, UEM's board announced a series of measures that it hopes will enhance the trust's performance and narrow the discount. These were a new performance-based tender offer, regular share buybacks, further dividend increases and bringing forward the 2026 continuation vote. The proposals were well received and culminated in a recent 97.6% vote in favour of the company's continuation, which gives UEM's investment team a clear, five-year runway in which to shine.

Considering the current investment backdrop, many of UEM's investments have a domestic/regional focus so should be relatively insulated from geopolitical noise and the effects of US tariffs. The trust offers a low beta (c 0.8) exposure to emerging markets. Over time, the portfolio has become more defensive with a reduction in exposure to global trade (recent exits include Oceans Wilson and Santos Brasil) and an increase in companies benefiting from the growth in social infrastructure such as UEM's two largest holdings, Orizon Valorização de Resíduos and Sabesp.

NOT INTENDED FOR PERSONS IN THE EEA

Investment companies
Emerging market equities

24 September 2025

Price		**254.00p**
Market cap		**£460m**
Total assets		**£531m**
NAV		286.3p

[1]NAV at 22 September 2025.

Discount to NAV		11.3%
Current yield		3.7%
Shares in issue		180.9m
Code/ISIN		UEM/GB00BD45S967
Primary exchange		LSE
AIC sector		Global Emerging Markets
Financial year end		31 March
52-week high/low	254.0p	200.0p
NAV high/low	288.0p	245.9p
Net gearing		2.5%

[1]At 31 August 2025.

Fund objective

Utilico Emerging Markets Trust's investment objective is to provide long-term total returns by investing predominantly in infrastructure, utility and related equities, mainly in emerging markets.

Bull points

- Specialist fund investing in high-quality emerging market companies.
- Progressive dividend policy and attractive yield.
- Higher economic growth and lower valuations in emerging versus developed markets.

Bear points

- Discount is persistently wider than the board's desired level of less than 10%.
- The MSCI Emerging Markets Infrastructure and Utility indices have underperformed the MSCI Emerging Markets Index over the long term.
- Emerging market indices can be more volatile than those in developed markets.

Analyst

Mel Jenner +44 (0)20 3077 5700

investmenttrusts@edisongroup.com
Edison profile page

Utilico Emerging Markets Trust is a research client of Edison Investment Research Limited

UEM: Lower-risk access to above-average economic growth

UEM celebrated its 20th anniversary as a public company on 20 July 2025. Between inception on 20 July 2005 and 31 July 2025, it generated an annual NAV total return of 9.1%. This equates to an aggregate total return of 470.6%, which is meaningfully higher than the MSCI Emerging Markets Index's 349.7% total return.

Following the trust's mandate of investment in infrastructure and utility companies, UEM's managers provide a lower-beta way for investors to access the higher economic growth prospects in emerging markets. Most of the trust's investee companies are asset backed and more than 95% of the businesses are operational. UEM's portfolio has a beta of around 0.8, meaning that while it is unlikely to fully participate when emerging markets are rising, there should be an element of capital protection during periods of emerging market share price weakness. More than 80% of the trust's portfolio companies pay dividends, supporting UEM's progressive dividend policy.

Recent developments

In the FY25 annual report (ending 31 March), UEM's board announced that it was reviewing the effectiveness of the company's discretionary tender offer and how the trust may be afforded a higher valuation. On 7 August 2025, the board provided an update on proposals to increase demand for the trust's shares which, over time, should lead to a narrowing of its discount:

- A new performance-based conditional tender offer, whereby UEM is benchmarked against the MSCI Emerging Markets Total Return Index. Performance will be measured over a five-year period. Up to 25% of the company's issued share capital may be tendered if the trust underperforms the index in the five years ending 31 March 2030.
- Continuation of the share repurchase programme, with the aim of UEM achieving and then maintaining a single-digit discount, in normal market conditions. In the last three financial years, c 28.2m shares have been bought back at a cost of c £62.2m.
- Further dividend increases. UEM pays regular quarterly dividends and the total annual distribution has increased each year since 2016. The FY25 payment of 9.125p per share was 6.1% higher than the FY24 dividend of 8.600p per share. The trust's board is targeting future annual dividend increases. UEM is the only fund in the AIC Global Emerging Markets sector with a 10-year record of consecutive higher annual dividends, making it an AIC next-generation dividend hero.
- Advancement of the 2026 continuation vote to follow the 16 September 2025 AGM, and then to be held at subsequent five-year intervals, subject to shareholder approval.

The continuation vote was duly undertaken on 16 September and UEM received a very high level of shareholder support, with 97.63% voting in favour of the resolution; hence, the next continuation vote will be in 2030.

Currently, UEM regularly discloses its top 30 positions. The board has decided to further increase transparency by including a full holdings list in the annual report. There is also a commitment, except in exceptional circumstances, to only invest in listed companies. Unlisted businesses currently make up a modest c 2% of the trust's portfolio.

Perspectives from UEM's managers

Jillings comments that there was an acceleration in exports and inventory building ahead of the implementation of US tariffs, which provided a tailwind to global economic activity for the first seven to eight months of 2025. However, he anticipates a slowdown for the rest of the year and notes that tariffs are leading to pauses in significant investment decisions. The manager considers that Latin America remains relatively immune from US tariffs, although there is heightened risk in Brazil as the country has been in US president Trump's sights. As Brazil is a commodity producer, its exports are likely to be redirected from the US to other regions if tariffs become more material.

In the US, Trump ideally wants a weaker dollar and lower interest rates. However, while interest rates are important, Jillings suggests that the strength of the US economy is a bigger question. Despite short-term interest rate expectations coming down, long-term interest rates are rising, as there are widespread concerns about the level of US debt and the ability to service it. Unfortunately, this situation is not just restricted to the United States as other countries, including the UK, are heavily indebted.

The manager explains that a consequence of a weaker US dollar is that investors are slowly repositioning away from US exceptionalism (there have been notable fund flows out of the US and into Europe and emerging markets). Lower US interest rates also enable interest rate reductions elsewhere, which have been widespread including in the UK, New Zealand and emerging markets. Looser monetary policy generally leads to increased confidence and higher stock markets or a lower cost of equity.

Broers recently travelled to Hong Kong, where she gleaned some interesting insights. Chinese investor sentiment is improving, but there are questions about how long the recent stock market rally will continue, as a meaningful part of the move has been due to higher liquidity rather than improving company fundamentals. There is an intense AI and technology focus in China, and the country appears to be well positioned to benefit from its relatively low-cost semiconductor manufacturing. Also, improved performance from Chinese chips is slowly reducing reliance on US semiconductor imports. Another interesting development is that fads, which traditionally originated in the West, are now starting in China, for example high global demand for Pop Mart's Labubu dolls.

Portfolio breakdown

At the end of August 2025, UEM's top 10 holdings made up 40.6% of the portfolio, which was a 3.4pp higher concentration compared with 37.2% 12 months earlier. Its top 30 positions made up 74.6%, which was a higher percentage versus 72.9% at the end of August 2024.

Exhibit 2: UEM's top 10 holdings at 31 August 2025

Company	Country	Industry	Megatrend	Portfolio weight Aug-25	Portfolio weight Aug-24
Orizon Valorização de Resíduos	Brazil	Waste treatment	Social infra	6.2	4.2
Sabesp*	Brazil	Water & waste treatment	Social infra	5.3	2.6
Int'l Container Terminal Services	Philippines	Ports operator	Global trade	5.1	5.4
Manilla Water Company	Philippines	Water	Social infra	4.5	2.9
IndiGrid Infrastructure Trust	India	Electricity transmission	Energy growth & transition	4.3	3.0
FPT Corporation	Vietnam	Data services	Digital infra	3.7	5.2
Alupar Investimento	Brazil	Electricity transmission & generation	Energy growth & transition	3.6	4.4
VinaCapital Vietnam Opportunity Fund	Vietnam	Investment fund	Social infra	2.8	2.7
InPost	Poland	Logistics operator	Digital infra	2.6	3.2
Korea Internet Neutral Exchange (KINX)	South Korea	Internet exchange	Digital infra	2.5	2.3
Total				**40.6**	**37.2**

Source: UEM, Edison Investment Research. Note: *Companhia de Saneamento Básico do Estado de São Paulo.

UEM's active share is around 98%, which is a measure of how the fund differs from its reference index, with 0% representing full index replication and 100% no commonality. This is unsurprising given the trust's specialist mandate and fundamental stock selection. Notable differences between UEM's portfolio and the MSCI Emerging Markets Index include the trust's lack of financial stocks, which make up a quarter of the index. Brazil remains UEM's largest country exposure, despite a reduced allocation over the last few quarters, which compares with a modest mid-single-digit index weighting. The trust has only one holding in Taiwan, which is the second-largest weighting in the MSCI Emerging Markets Index, approaching 20%, and UEM has a similar sized below-index weighting to China.

Exhibit 3: Portfolio geographic exposure (%)

	Portfolio end Aug-25	Portfolio end Aug-24	Change (pp)
Brazil	22.0	25.8	(3.8)
Other Europe	11.5	16.7	(5.2)
China incl. Hong Kong	10.4	11.0	(0.6)
The Philippines	10.4	6.8	3.6
Vietnam	8.8	9.3	(0.5)
Middle East/Africa	7.7	6.0	1.7
India	7.5	7.7	(0.2)
Other Asia	5.3	6.1	(0.8)
Chile	5.2	0.0	5.2
Colombia	4.8	0.0	4.8
Other Latin America	3.8	10.6	(6.8)
Poland	2.6	0.0	2.6
	100.0	**100.0**	

Source: UEM, Edison Investment Research

Exhibit 4: Portfolio sector exposure (%)

	Portfolio end Aug-25	Portfolio end Aug-24	Change (pp)
Electricity	22.2	16.5	5.7
Water & waste	18.4	11.5	6.9
Data serv & digital infra	13.7	12.8	0.9
Ports	9.2	N/S	N/A
Logistics	6.2	N/S	N/A
Infrastructure inv funds	5.8	N/S	N/A
Telecoms	5.7	5.8	(0.1)
Airports	5.0	6.5	(1.5)
Road & rail	4.1	4.3	(0.2)
Gas	3.9	4.6	(0.7)
Renewables	2.0	8.7	(6.7)
Other	3.8	8.8	(5.0)
	100.0	**100.0**	

Source: UEM, Edison Investment Research. Note: N/S - not stated separately.

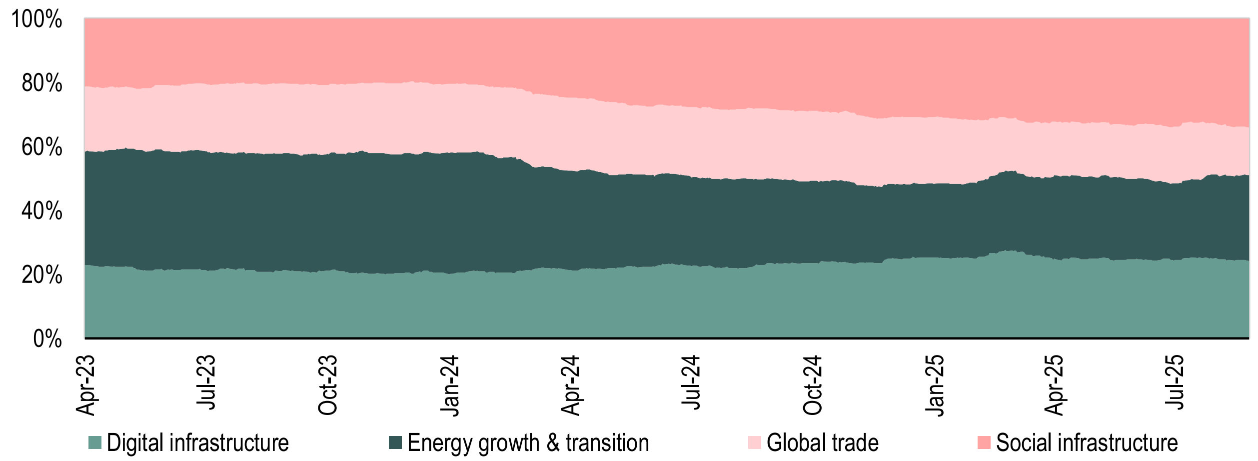
UEM's managers have identified four global infrastructure megatrends that they believe will support the growth of the trust's investee companies long into the future. At the end of August 2025, the portfolio was broken down as follows:

- **Social infrastructure** (33.6%): increased need for social infrastructure such as sanitation, water supply and transportation networks. Demand is driven by a rising emerging market middle class, with higher levels of disposable income and the ongoing shift to urbanisation. Orizon Valorização de Resíduos is a leading Brazilian waste management company, with an 11% market share via 17 landfills across 12 states. Its core waste treatment and disposal business has high entry barriers and strong recurring demand. The company is creating additional value from waste through biomethane production, recycling, waste-to-energy projects and the monetisation of carbon credits, making Orizon a major player in Brazil's transition to a circular economy. With 40% of waste in Brazil being inadequately disposed of, the company has significant long-term growth opportunities.

- **Energy growth & transition** (27.2%): investment in renewable energy areas such as wind, solar and hydroelectric, as well as supporting grid infrastructure, which is required to support economic growth and increase energy security. NHPC is an Indian state-owned (67.4%) hydropower company operating across the full value chain from development to operation. Its hydroelectric assets operate under a regulated ROE model, with incentives for plant availability and performance, while its renewable assets have 25-year fixed power purchase agreements. Despite near-term margin pressure due to expansion capex, NHPC has good long-term growth prospects from its new projects.
- **Digital infrastructure** (24.0%): digital connectivity investment is occurring very rapidly, driving strong demand for data centres. Hong Kong's leading data centre operator, SUNeVision, serves different market requirements and price points. Its flagship Mega-i data centre is the leading data interconnection point in Asia. While the company has a very favourable growth profile, recent results showed that geopolitical tensions have caused a delay in signing a major new contract, which has led to a reduction in the short-term profit outlook, although the long term still looks positive, with demand from AI customers expected to ramp up.
- **Global trade** (15.2%): high trading activity levels are expected to continue regardless of Trump's trade policies, with emerging markets making up an increasing share of global activity. CTP is the largest industrial real estate operator and developer in Central and Eastern Europe with a c €15.5bn asset portfolio. This region lags Western Europe in terms of total prime industrial real estate capacity but is rapidly catching up, while demand for prime warehouse locations from industrial clients exceeds supply. Many of CTP's new signed leases are with Asian manufacturers that are setting up operations in Eastern Europe for export into Western Europe, as part of the nearshoring trend, which is supporting higher rental income and operating margins. CTP also has a substantial pipeline of high-yielding prime assets under construction, which should help towards the company's ambitious €1.2bn 2030 rental target.

In Exhibit 5, we show how UEM's exposure to the four megatrends has evolved over time. Since the beginning of 2024, there has been a gradual increase in the social infrastructure weighting, likely a result of the unrelenting trend of urbanisation in emerging markets, coupled with favourable regulatory environments. Realisations and threats to globalisation have resulted in the trust having a lower exposure to companies centred around international transactions.

Exhibit 5: Evolution of UEM's megatrend exposure



Source: UEM, Edison Investment Research

Performance: Ahead of the reference index over three and five years

Exhibit 6 shows the 10 funds in the AIC Global Emerging Markets sector. The peer group is a diverse mix of companies – some are specialists, like UEM, while others have a general emerging market remit.

UEM's NAV total returns are above average over the last five years, ranking second out of nine funds. Morningstar's performance data on the trust does not add back the dilutive effect of its historical subscription shares before February 2018. UEM currently has the widest discount in the sector, a below-average ongoing charge and an average level of gearing, The trust's dividend yield is 1.5pp above the sector mean, ranking second.

Exhibit 6: AIC Global Emerging Markets sector at 23 September 2025

% unless stated	Market cap (£m)	NAV TR 1Y	NAV TR 3Y	NAV TR 5Y	NAV TR 10Y	Discount	Ongoing charge	Performance fee	Net gearing	Dividend yield
Utilico Emerging Markets	459.6	12.2	21.6	63.9	123.9	(11.4)	1.5	No	103	3.6
Ashoka WhiteOak Emerging Markets	55.1	27.4				1.6	1.9	No	100	0.0
Barings Emerging EMEA Opportunities	89.7	25.4	42.2	36.8	131.9	(11.2)	1.7	No	100	2.2
BlackRock Frontiers	318.9	15.1	33.1	114.7	148.3	(4.1)	1.4	Yes	117	4.4
Fidelity Emerging Markets	596.9	32.8	49.7	24.9	127.6	(7.7)	0.8	No	100	1.6
JPMorgan Emerg Europe, ME & Africa	95.4	35.3	34.9	(89.4)	(73.3)	273.5	4.2	No	100	0.2
JPMorgan Emerging Markets	1,262.9	17.8	21.3	25.7	171.0	(9.2)	0.8	No	102	1.5
JPMorgan Global Emerg Mkts Income	418.9	20.9	37.7	60.5	178.1	(8.9)	1.0	No	108	3.6
Mobius Investment Trust	169.7	5.9	21.8	49.6		(4.7)	1.4	No	100	1.2
Templeton Emerging Markets Inv Trust	2,113.3	34.2	53.1	46.3	224.7	(8.8)	0.9	No	100	2.4
Simple average	**558.0**	**22.7**	**35.0**	**37.0**	**129.0**	**20.9**	**1.6**		**103**	**2.1**
UEM rank out of 10 funds	**4**	**9**	**8**	**2**	**7**	**10**	**4**		**3**	**2**

Source: Morningstar, Edison Investment Research. Note: Performance at 23 September 2025. TR = total return.

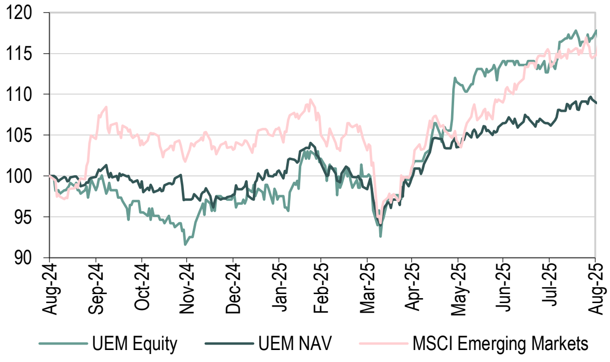
In FY25 (ending 31 March), UEM's NAV and share price total returns of -2.9% and +1.8% respectively lagged the reference index's +5.7% total return. The largest positive contributors to the trust's NAV total return performance were: SUNeVision (+1.7%, beneficiary of the growth in AI); Manila Water (+1.1%, increased infrastructure spending in the Philippines); Aguas Andinas (+0.6%, received a long-overdue tariff increase); Sonatel (+0.6%, strong telecom industry growth); and International Container Terminal Services (+0.6%, robust operational performance). On the other side of the ledger, the largest detractors were: Petalite (-1.5%, unlisted company whose asset value was written down based on the latest external fund raise); JSL (-1.3%, currency weakness and lack of demand for Brazilian small-cap stocks); KINX (-0.9%, delay in completion of its new data centre capacity); Grupo Traxion (-0.9%, concerns around nearshoring and Mexican currency weakness); and Serena Energia (-0.8%, for similar reasons to JSL).

Exhibit 7: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	MSCI Emerging Markets (%)	MSCI EM Utilities (%)	CBOE UK All Companies (%)
31/08/21	29.5	23.4	18.2	25.9	27.1
31/08/22	3.8	5.8	(7.1)	23.3	1.8
31/08/23	4.6	4.0	(6.6)	(22.8)	5.5
31/08/24	4.4	7.6	11.4	26.1	17.3
31/08/25	16.9	9.4	14.5	(5.4)	13.4

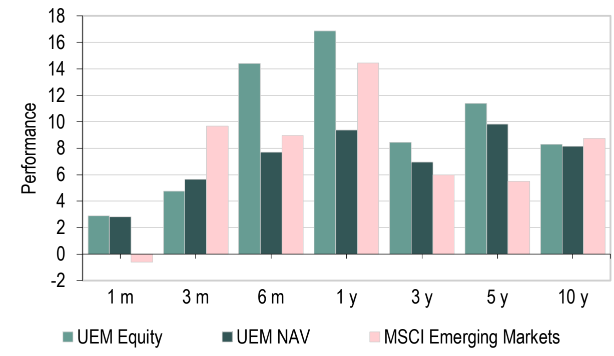
Source: LSEG Data & Analytics, Edison Investment Research. Note: All % on a total return basis in pounds sterling.

Exhibit 8: Rebased one-year share price, NAV and total return performance to 31 August 2025



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 9: Share price and NAV total return performance, relative to indices (%)



Source: LSEG Data & Analytics, Edison Investment Research. Note: Three-, five- and 10-year figures annualised.

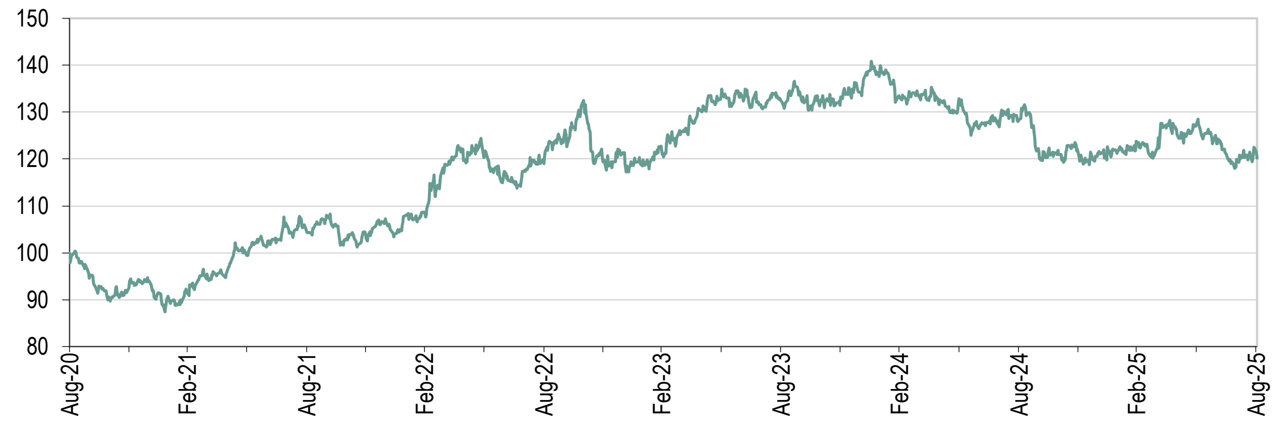
Looking at UEM's relative returns in Exhibit 10, it has outperformed the MSCI Emerging Markets Index over the last three and five years, while its share price has also outperformed over the last year, leading to a narrower discount. The trust has notably outperformed the MSCI Emerging Markets Utilities Index over all periods shown in both NAV and share price terms. It should be remembered that the managers invest in their best ideas, selected on a bottom-up basis, without reference to the composition of the reference index.

Exhibit 10: Share price and NAV total return performance, relative to indices (%)

	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Price relative to MSCI Emerging Markets	3.5	(4.5)	5.0	2.1	7.1	31.2	(4.2)
NAV relative to MSCI Emerging Markets	3.5	(3.7)	(1.2)	(4.4)	2.8	22.3	(5.5)
Price relative to MSCI EM Utilities	3.0	2.5	8.0	23.5	38.4	19.8	35.3
NAV relative to MSCI EM Utilities	3.0	3.4	1.7	15.6	32.8	11.7	33.5
Price relative to CBOE UK All Companies	1.3	(1.4)	6.6	3.1	(9.1)	(5.5)	4.8
NAV relative to CBOE UK All Companies	1.3	(0.5)	0.3	(3.5)	(12.8)	(11.9)	3.4

Source: LSEG Data & Analytics, Edson Investment Research. Note: Data to end August 2025. Geometric calculation.

Exhibit 11: UEM's NAV outperformance versus the reference index, last five years

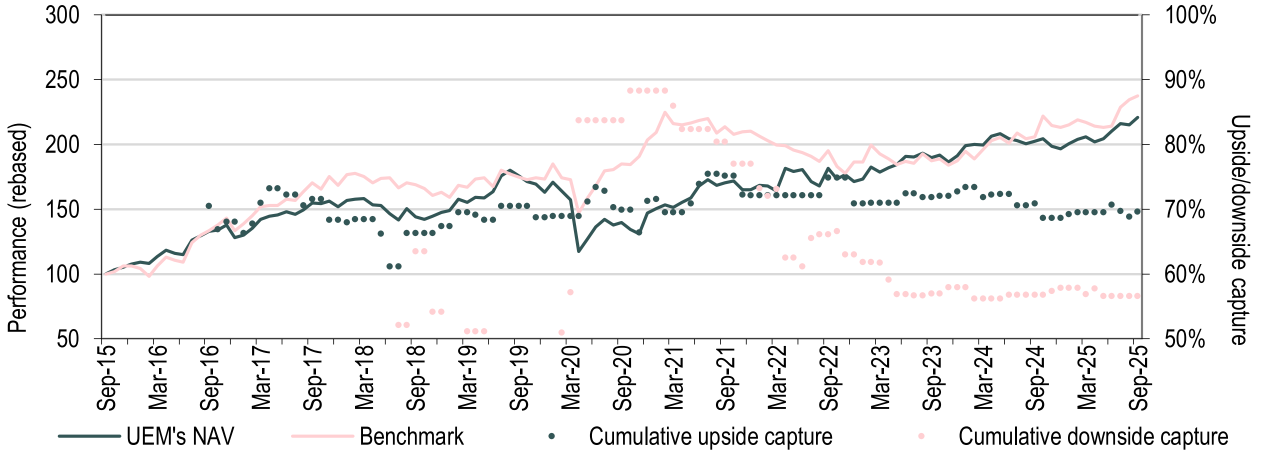


Source: LSEG Data & Analytics, Edison Investment Research

UEM's upside/downside analysis

UEM offers a specialised yet defensive exposure to emerging markets. In Exhibit 12, we show the trust's upside/downside capture over the last decade. In months when emerging markets stocks rose, on average, UEM captured 70% of the upside, whereas in months when emerging markets declined, the trust captured just 57% of the downside.

Exhibit 12: UEM's upside/downside capture



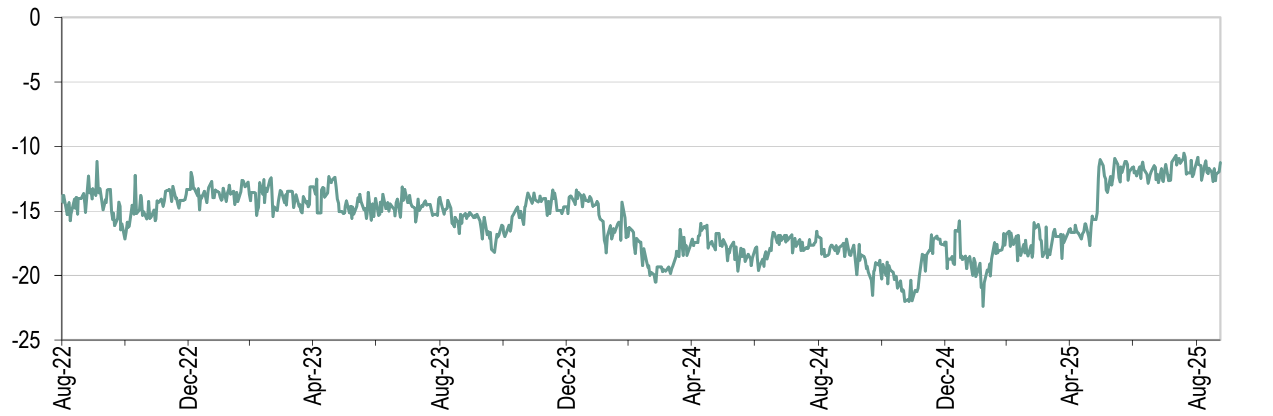
Source: LSEG Data & Analytics, Edison Investment Research
Cumulative upside/downside capture calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the chart due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

Valuation: Notable narrowing of the discount

As shown below in Exhibit 13, in recent months UEM's discount has narrowed considerably. While this is a positive move, given the trust's more than respectable performance record and the style of its investments, it is surprising that UEM's discount is wider than those of its peers. The company has increased its profile with new and existing investors in the past few years, which will hopefully support a higher valuation, as should the increased commitment to share buybacks.

The current 11.3% discount is at the narrower end of the three-year range of discounts (10.5–22.4%) and lower than its historical averages of 16.4% over the last 12 months, 15.8% over three years, 14.6% over five years and 13.2% over the last decade. The board aspires to a sub-10% discount, and typically repurchases shares when the discount is above 10% in normal market conditions. In FY25, c 4.4m shares were bought back, which was equivalent to c 2.2% of the share base.

Exhibit 13: Discount over the last three years (%)



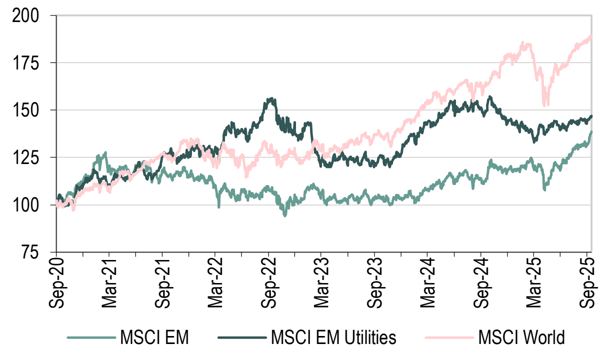
Source: LSEG Data & Analytics, Edison Investment Research

Emerging markets: Above average growth and reasonable valuations

In its most recent World Economic Outlook (April 2025), the IMF reduced its global growth projections in the wake of President Trump's wide imposition of tariffs citing 'greater policy uncertainty, trade tensions and softer demand momentum'. However, as shown in Exhibit 1, emerging markets continue to offer above-average growth prospects. Factors for this include favourable demographic trends as young and growing populations move up the education curve, a rising middle class with increasing levels of disposable income available for spending on both goods and services, and ongoing urbanisation, which is leading to increased demand for infrastructure assets.

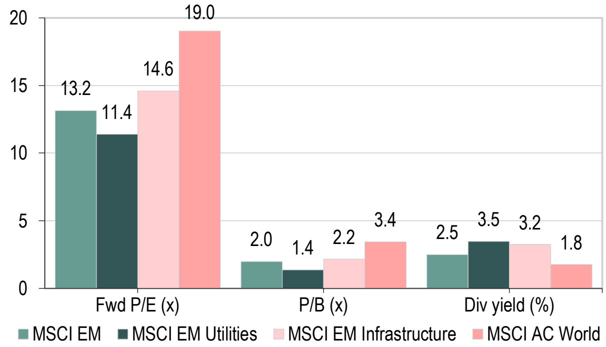
Emerging market equities remain attractively valued versus the global market. On a forward P/E basis at the end of August 2025, in aggregate, they were trading at around a 30% discount to the MSCI AC World Index, which is dominated by the United States. At 31 August, the United States made up around two-thirds of the index and the top nine constituents were all American companies (equal to nearly 25% of the whole index). It has been widely reported that this level of concentration in the US stock market is higher than prior to bursting the dot-com bubble in 2000. If investors look to de-risk their global portfolios by reducing their US allocations, maybe in response to a tariff-led US economic slowdown, emerging markets could be a notable beneficiary. Given their relative sizes, a small switch from the US into emerging markets could lead to a significant upward move in the share prices of companies operating in less-developed economies.

Exhibit 14: Indices total return (£), last five years



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 15: Indices valuation metrics, at 31 August 2025



Source: Edison Investment Research

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London | New York | Frankfurt
20 Red Lion Street
London, WC1R 4PS
United Kingdom