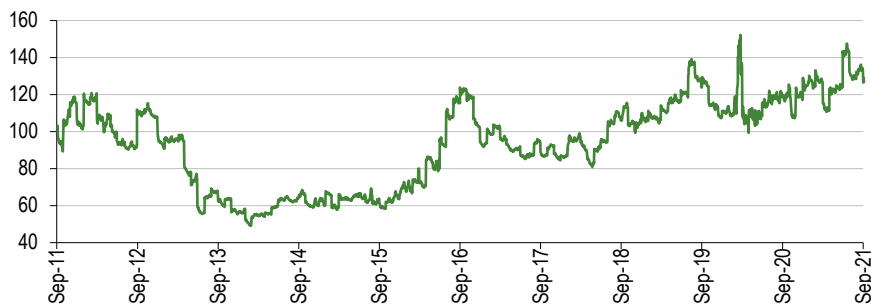


UIL

A unique portfolio of undervalued global assets

UIL Limited (UIL) is a leveraged fund that invests in specialist assets and is managed by deep-value investor ICM. Charles Jillings and his team take a long-term approach, seeking undervalued businesses around the world. UIL is differentiated by its geographic and sector exposures. Australia-domiciled companies make up c 35% of the fund, while more than 40% is invested in financial services, although technology and resources stocks also feature highly. Around 75% of the portfolio is held in collective investment vehicles with specific mandates that are managed by ICM and known as 'platforms', with the remainder in direct investments. Jillings is bullish on UIL's prospects saying that 'over the next two years, I believe that portfolio companies will surprise to the upside'.

Long-term NAV outperformance versus the broad UK market



Source: Refinitiv, Edison Investment Research. Note: NAV total return versus the CBOE UK All Companies index over 10 years to end-September 2021.

The analyst's view

UIL has a positive long-term track record, outpacing the performance of the broad UK market. The company's geographic and sector exposures are unconventional and are shaped by Jillings' three medium-term core views: the world's financial markets are over-indebted; technological change offers strong investment upside; and emerging markets offer better GDP growth opportunities than developed markets. UIL's portfolio should be well positioned in the current inflationary environment given its meaningful weightings to resources and disruptive technologies. It should be noted that while the company trades on a wide discount, this is actually understated given that some of its platforms are also trading at a discount to the value of their underlying investments thus affording UIL's shareholders a 'double discount'. As an example, Utilico Emerging Markets is currently trading at a c 12.5% discount to its cum-income NAV.

Scope for a narrower discount

UIL's shares are currently trading at a 33.3% discount to cum-income NAV, which is narrower than the 34.3% to 39.1% range of average discounts over the last one, three, five and 10 years. The company's performance record, a lower level of gearing and regular quarterly dividends point to a higher valuation being warranted. UIL currently offers investors an attractive, fully covered 3.1% yield.

Investment companies Global value

8 November 2021

Price 256.0p
Market cap £215m
AUM £516m

NAV* 383.6p
Discount to NAV 33.3%

*Including income. As at 4 November 2021.

Yield 3.1%

Ordinary shares in issue 84.0m

Code/ISIN UTL/BMG917071026

Primary exchange LSE

AIC sector Flexible Investment

52-week high/low 282.0p 162.5p

NAV* high/low 435.7p 283.3p

*Including income

Net gearing* 59.6%

*Including zero discount preference (ZDP) shares. As at 30 September 2021.

Fund objective

UIL's objective is to maximise shareholder returns by identifying and investing in investments worldwide where the estimated underlying value is not reflected in the market price. The company's investment performance is benchmarked against the broad UK equity market. The fund is a member of the AIC flexible investment sector. (Our [initiation report](#) was published in December 2019.)

Bull points

- Specialist fund with long-term record of outperformance.
- Regular quarterly dividend payments and attractive yield.
- Scope for a higher valuation given large discount to NAV

Bear points

- Levered strategy means losses are amplified in a falling market.
- Modest free float – the majority of UIL's shares are closely held.
- Relatively high concentration risk as largest holding is c 21.5% of the fund on a look-through basis.

Analysts

Mel Jenner +44 (0)20 3077 5720

Sarah Godfrey +44 (0)20 3681 2519

investmenttrusts@edisongroup.com

[Edison profile page](#)

**UIL is a research client of Edison
Investment Research Limited**

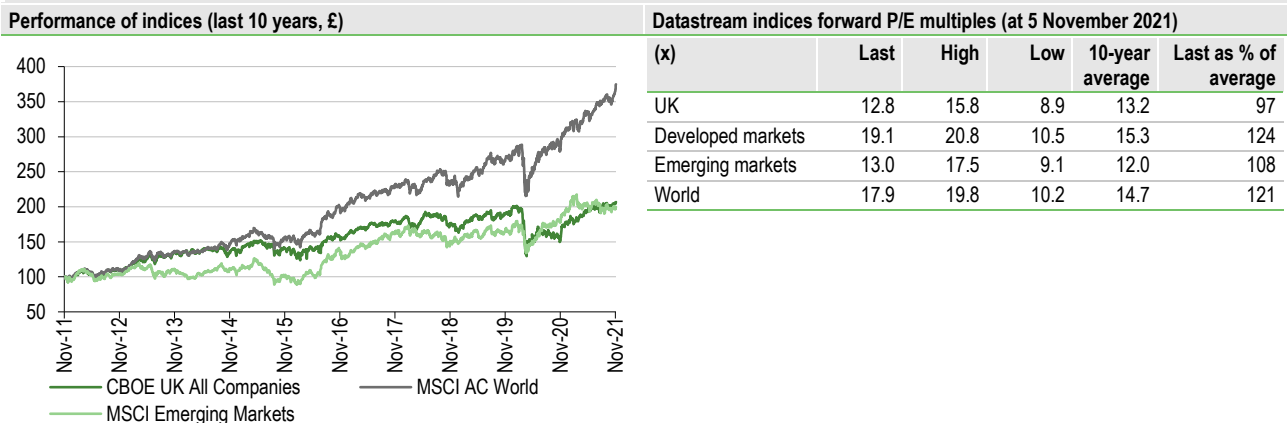
Recent developments

On 29 June 2021, the board announced that UIL's largest holding Somers (c 40% of the portfolio) is now valued at its net asset value (NAV), which led to an uplift of c 10% in UIL's NAV. Somers had moved from being valued at its share price to a 15% discount to NAV valuation on 31 December 2020, due to very low trading volumes in the company's shares. At the time, the board stated that it intended to reduce the valuation discount over time. Trading volumes in Somers' shares remain low, so the board considers that an NAV-based valuation of UIL's holding in the company is still appropriate. Somers' shares are trading at a c 40% discount to NAV.

Market outlook: Stocks pricing in economic recovery

Over the last decade, global stocks have outpaced the performance of the UK and emerging markets (Exhibit 1, left-hand side). Share prices have rallied considerably since the Q120 market sell-off as investors have increased confidence about an improvement in economic growth now that COVID-19 vaccines are being rolled out more widely. So far this year, in aggregate, corporate earnings have exceeded consensus expectations. However, valuations look somewhat rich, particularly in developed markets. The Datastream developed markets index, which is dominated by the United States, is trading on a forward P/E multiple of 19.1x, which is towards the high end of its 10.5x to 20.8x range over the last 10 years and a 24% premium to its average over this period. Hence, investors should remain vigilant and may benefit from focusing on reasonably priced companies that have sustainable above-average growth prospects.

Exhibit 1: Market performance and valuation



Source: Refinitiv, Edison Investment Research

The fund manager: Charles Jillings

The manager's view: Optimistic on the growth outlook

Jillings says that 'the world is generally ahead of COVID-19 outbreaks'; the passage of time means the impact of the pandemic is diminishing, which is being helped by the vaccination rollout and there are an increased number of drugs available to improve patient outcomes. While we are 'on the other side of COVID', the manager acknowledges that another significant disease mutation or wave would be a setback. He is cognisant that the disease is a highly transmissible, high-impact virus but is currently not mutating away from available vaccines; hence Jillings is optimistic about the global growth outlook.

The manager comments that going into the pandemic in Q120 there was a demand/supply shock, where the reduced demand was sharper than the supply shortages we are currently experiencing coming out the other side. Delayed spending patterns have led to excess demand and product shortages as suppliers are unable to keep up with the higher levels of demand. These issues have been exacerbated by some COVID-19 restrictions remaining in place leading to disruptions within the logistics sector, which are adding to supply chain shortages.

Jillings suggests that it is not a surprise that the energy market is experiencing high levels of demand from both businesses and consumers. Within the UK for example, there is a perfect storm; there has been a shift to greener energy, but the current tight market has proved that 'we still need fossil fuels to combat the intermittency of renewable energy'. Shortages have been exacerbated by high levels of demand as the economy reopened post lockdowns. The manager comments that 'the whole energy system is on a knife edge, so it is unsurprising to see energy costs spiking'. He adds that countries are having to reappraise their energy security and approaches to renewable energy, as well as trying to balance their domestic requirements with available international supplies. Jillings says that despite the heightened political tensions between China and the United States, China still requires more US liquified natural gas exports to satisfy its domestic energy demand.

The manager notes what is happening in China; the last monthly economic data saw exports continuing to push to the upside, with imports shifting to the downside. China is essentially the manufacturer for the global economy, and the internal slowdown in GDP growth is a reflection of the government's efforts to slow down activity in the domestic housing market. Including trickle-down effects, the property sector represents c 30% of the Chinese economy. However, Jillings believes that 'the strength in the global economy will outweigh a short-term economic slowdown in China'.

Discussing his optimism about the outlook for global economic growth, the manager says that 'demand is high and there is further to go as regional lockdowns are lifted'. He is certain that latent demand has not been met and business inventories are low, such as in the auto and semiconductor sectors, as companies have tried to satisfy higher order volumes. Within the auto industry, manufacturers are selling as many vehicles as they can but are being hampered by input shortages. When 'normality' returns, Jillings is confident that there will continue to be 'a heightened level of economic activity'.

Current portfolio positioning

Exhibit 2: Top 10 holdings (as at 30 September 2021)				
Company	Country*	Sector	Portfolio weight %	
			30 Sep 2021	30 Sep 2020**
Somers	Bermuda	Financial services investment holding company	40.8	26.1
Zeta Resources	Australia	Resources investment company	16.5	16.6
Utilico Emerging Mkts Trust	UK	Emerging markets investment trust	14.8	13.1
ICM Mobility	UK	Digitisation of public and private transport	8.1	N/A
Allectus Capital	Bermuda	Fintech investment company	4.7	5.7
Resolute Mining	Australia	Gold mining	4.0	10.0
Starpharma Holdings	Australia	Dendrimer products	1.7	N/A
Orbital Corporation	Australia	Clean engine technologies/alt fuel systems	1.6	3.2
Nautilus Data Technologies	US	Data centre technology	1.4	N/A
Sindoh Company	South Korea	Multifunction & 3D printers	1.2	N/A
Top 10 (% of portfolio)			94.8	93.5
Source: UIL, Edison Investment Research. Note *Country of listing or domicile. **N/A where not in end-September 2020 top 10.				

Looking at Exhibit 2, at end-September 2021, UIL's top 10 holdings made up 94.8% of the fund, which was not dissimilar to 93.5% a year earlier; six positions were common to both periods. However, readers should remember that four of the top 10 positions (Somers, Zeta Resources, Utilico Emerging Markets and Allectus Capital) are platforms that hold a portfolio of underlying

holdings, which reduces UIL's portfolio concentration risk, so UIL's fund concentration is not as high as these numbers would suggest. Currently, the total number of positions including the platforms is c 40 and c 16% of the fund is held in unlisted investments (excluding loans to listed companies and listed companies classed as level 3 investments – those that are valued using inputs that are not based on observable market data). UIL's position in Somers (c 40% of the fund) is itself made up of more than 10 investments, with its largest holding, Australia-listed Resimac (c 60% of the company, in which Somers has a 62.4% interest) accounting for c 21.5% of UIL's portfolio on a look-through basis (the top 10 made up c 61%).

Exhibit 3: Portfolio geographic exposure on a look-through basis (% unless stated)

	Portfolio end-September 2021	Portfolio end-September 2020	Change (pp)
Australia	35.3	28.2	7.1
UK	13.8	10.0	3.8
North America	13.1	4.6	8.5
Asia	11.1	8.7	2.4
Europe (ex-UK)	6.3	8.8	(2.5)
Other - gold mining	5.5	12.7	(7.2)
Middle East/Africa	5.2	7.6	(2.4)
Bermuda	4.4	15.6	(11.2)
Latin America	3.9	3.8	0.1
New Zealand*	1.4	N/A	1.4
	100.0	100.0	

Source: UIL, Edison Investment Research. Note: *New Zealand was included with Australia in September 2020.

In terms of UIL's geographic exposure (Exhibit 3), over the 12 months to end-September 2021, there are higher weightings to North America and Australia/New Zealand (both +8.5pp) due to the strong performance of Copper Mountain Mining (a Canadian company held within Zeta Resources) and Resimac. There are lower weightings to Bermuda (-11.2pp) and 'other - gold mining' (7.2pp). The reduced Bermudan exposure is due to the sales of Ascendent Group and One Communications to help fund the repayment of UIL's 2020 ZDPs, and the subsequent disposal of Bermuda Commercial Bank. The company's gold exposure has declined as the commodity price has been weak.

Exhibit 4: Portfolio sector exposure on a look-through basis (% unless stated)

	Portfolio end-September 2021	Portfolio end-September 2020	Change (pp)
Financial services	40.8	26.2	14.6
Technology	18.4	21.1	(2.7)
Resources	15.0	13.8	1.2
Gold mining	5.5	12.7	(7.2)
Ports	3.8	3.0	0.8
Electricity	1.9	3.4	(1.5)
Telecoms	1.7	5.8	(4.1)
Oil & gas	1.6	1.6	0.0
Renewables	1.4	0.9	0.5
Infrastructure investments	1.0	5.6	(4.6)
Airports	0.6	0.4	0.2
Water	0.5	0.5	0.0
Other	7.8	5.0	2.8
	100.0	100.0	

Source: UIL, Edison Investment Research

Exhibit 4 shows UIL's sector exposure. In the year to end-September 2021, the largest changes are financial services (+14.6pp, due to Resimac's strong performance), gold mining (-7.2pp), infrastructure investments (-4.6pp) and telecoms (-4.1pp).

A recent addition to UIL's top 10 holdings is privately held Nautilus Data Technology, which is developing patented intellectual property around a data centre water-cooling system. When chip density within a data centre rises, so does the concentration of heat generation; there is a threshold at which air conditioning systems are no longer effective and water-cooling systems are required. Nautilus's pilot project is in a data centre in California and there are plans to roll out additional units in the United States and overseas. Its water-cooling systems are 30% more efficient than air

conditioning solutions. Major data centre users including Amazon and Google are seeking green cooling methods; Nautilus’s systems are believed to be more efficient, generate lower emissions and are lower cost.

UIL made a \$5m investment in the Novareum Blockchain Asset Fund, which was launched in July 2021. While the fund sits on the regulatory and administration platform of an external investment manager, it is managed by Gavin Blessing, who is a member of the ICM portfolio management team. The fund aims to deliver capital appreciation and maximise absolute returns by investing in a diversified portfolio of blockchain assets, such as cryptocurrencies, platform protocols and application tokens. Jillings says that this position will allow him and his investment team to further understand how blockchain technology is used in wider channels than just bitcoin, such as in supply chains, and consumer and financial applications. Jillings is ‘very excited’ about UIL’s investment in the Novareum Blockchain Asset Fund, he believes that while initial investments have already been made there are ‘more to come’.

ICM Mobility has moved higher up the list of UIL’s top 10 holdings as Jillings has consolidated other associated transit-related investments under this one umbrella. There are now five companies within ICM Mobility, all operating in the global transport ticketing segment ranging from traditional through to contactless ticketing systems. While these firms operate different businesses and solutions, the manager says that there are benefits in bringing them together in terms of synergies, creating centres of excellence and gaining insights about the overall global transport ticketing segment.

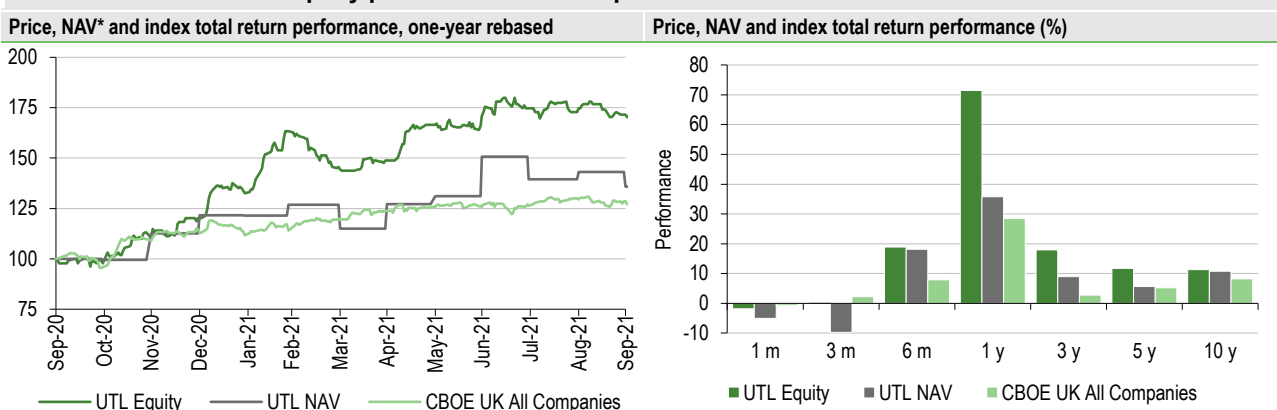
Performance: Overall outperformance of UK market

Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	CBOE UK All Companies (%)	MSCI AC World (%)	MSCI Emerging Markets (%)
30/09/17	(9.1)	(19.7)	12.0	15.5	19.0
30/09/18	16.6	26.5	5.9	13.5	2.4
30/09/19	47.6	20.0	2.7	7.9	4.1
30/09/20	(35.2)	(20.7)	(17.9)	5.8	5.7
30/09/21	71.5	35.8	28.5	22.7	13.7

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

Exhibit 6: Investment company performance to 30 September 2021



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. *Monthly NAVs.

In FY21 (ending 30 June 2021), UIL’s NAV and share price total returns of +50.9% and +57.0% respectively were significantly ahead of the benchmark’s +21.5% total return. The value of its largest position Somers increased by 109.2% (helped by the change in how the company was valued within UIL’s portfolio, see page 2) and was also largely driven by the very strong performance of its c 62% holding in Australia-listed non-bank financial services company Resimac,

whose share price rose by 143.6% over the period. Number two position Zeta Resources' share price rose by 117.6% reflecting the strength of the wider resources sector. Zeta's largest holding is Canada-listed Copper Mountain Mining, its share price appreciated by 477.8% in the year to end-June 2021. UIL's perennial underperforming asset is Resolute Mining, which saw its share price fall by 55.1%, in part due to another military coup in Mali, where its Syama mine is located. Jillings is hopeful of improved performance from Resolute going forward following management changes at the company and his continuing positive outlook on gold. Sterling strength in the year to 30 June 2021 was also a drag on the translation of UIL's performance.

Exhibit 7: NAV total return performance relative to CBOE UK All Cos Index over five years



Source: Refinitiv, Edison Investment Research

Exhibit 8 shows UIL's relative performance, the weakness over the last three months is primarily due to the company's holdings in Somers (Resimac's share price has pulled back, in line with those of its peer group), Starpharma Holdings and Resolute Mining. Despite this recent setback, UIL has outperformed the broad UK market over the last six months and one, three, five and 10 years in both NAV and share price terms; albeit the NAV outperformance over five years is modest.

Exhibit 8: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to CBOE UK All Companies	(1.2)	(1.9)	10.2	33.4	51.4	35.3	32.8
NAV relative to CBOE UK All Companies	(4.4)	(11.8)	9.6	5.7	19.4	2.3	26.6
Price relative to MSCI AC World	0.3	(1.1)	9.1	39.8	17.1	(5.3)	(22.0)
NAV relative to MSCI AC World	(3.0)	(11.1)	8.4	10.7	(7.6)	(28.4)	(25.7)
Price relative to MSCI Emerging Markets	0.1	6.4	20.1	50.9	31.1	14.0	35.4
NAV relative to MSCI Emerging Markets	(3.1)	(4.3)	19.3	19.5	3.4	(13.8)	29.0

Source: Refinitiv, Edison Investment Research. Note: Data to end-September 2021. Geometric calculation.

Peer group comparison

The AIC Flexible Investment sector is an eclectic mix of funds that follow a variety of investment mandates; however, a comparison between them does have some relevance. Exhibit 9 shows the largest 17 companies with market caps greater than £50m that have been trading for more than three years.

UIL's NAV total returns are above average over one, three and 10 years ranking second out of 17, fourth out of 17 and eighth out of 16 respectively, while lagging the mean over five years. The company has one of the widest discounts in the selected peer group, the second highest ongoing charge (see the following Fees and charges section) and the highest level of gearing. UIL offers an above-average dividend yield that is currently 0.8pp above the mean of the selected peer group.

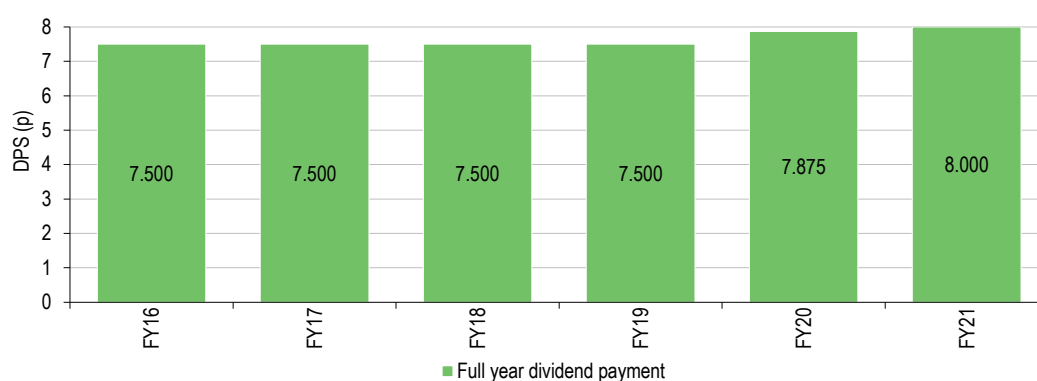
Exhibit 9: Selected peer group at 5 November 2021*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
UIL	215.0	39.2	39.4	37.5	138.1	(33.3)	2.3	Yes	160	3.1
Aberdeen Diversified Inc & Growth	306.8	14.7	10.7	22.9	57.2	(17.9)	0.6	No	104	5.6
BMO Managed Portfolio Growth	111.7	25.2	48.0	88.0	214.3	(1.6)	1.0	Yes	100	0.0
BMO Managed Portfolio Income	69.1	27.3	30.0	50.6	145.5	0.9	1.1	Yes	105	4.2
Caledonia Investments	2,122.6	32.4	36.5	66.1	197.0	(16.3)	1.0	No	100	1.6
Capital Gearing	919.5	14.4	29.8	41.6	88.2	2.6	0.6	No	100	0.9
Hansa Investment Company 'A'	173.6	30.1	28.4	51.1	75.3	(36.0)	1.1	No	100	1.5
JPMorgan Multi-Asset Growth & Inc	87.7	21.9	26.2			(2.1)	1.0	No	100	3.8
JZ Capital Partners	91.4	(13.5)	(60.9)	(64.8)	(37.4)	(60.7)	6.1	Yes	105	0.0
Livemore Investments	77.7	17.2	4.2	40.1	170.3	(35.5)	1.8	No	100	7.0
Miton Global Opportunities	104.2	49.7	41.7	72.4	177.5	0.8	1.3	No	100	0.0
Momentum Multi-Asset Value Trust	62.5	33.8	30.1	48.8	138.1	(0.6)	1.6	No	108	3.6
New Star Investment Trust	103.0	24.4	33.1	45.2	103.7	(25.9)	0.9	Yes	100	1.0
Personal Assets	1,747.0	12.3	31.8	36.5	76.1	1.7	0.7	No	100	1.1
RIT Capital Partners	4,245.8	38.0	56.0	72.9	183.1	(1.0)	0.7	Yes	108	0.0
Ruffer Investment Company	678.0	19.7	34.0	33.8	71.4	4.2	1.1	No	100	0.6
Tetragon Financial	582.8	9.6	27.0	44.0	253.2	(67.0)	2.1	Yes	100	4.5
Simple average	688.2	23.3	26.2	42.9	128.2	(16.9)	1.5		105	2.3
Fund rank in sector (17 funds)	8	2	4	12	8	13	16		1	7

Source: Morningstar, Edison Investment Research. Note: *Performance to 4 November 2021 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Dividends: Fully covered by income

UIL's dividends are paid quarterly in December, March, June and September. The board aims to at least maintain the total annual distribution, using revenue reserves as required (it also has the flexibility to pay dividends out of capital). At end-FY21, UIL had revenue reserves of 14.88p per share, which is equivalent to c 1.9x the last annual distribution. The FY21 dividend of 8.00p per share (four equal payments of 2.00p per share) was 1.6% higher year-on-year and was c 1.2x covered by income (revenue per share was 9.98p, +2.1% year-on-year). Based on its current share price, UIL offers a 3.1% dividend yield. Jillings remains upbeat about the prospects for UIL's dividend receipts, noting that Resimac's increased profitability should lead to higher income for UIL, while Utilico Emerging Markets is growing its dividend.

Exhibit 10: Dividend history since FY16


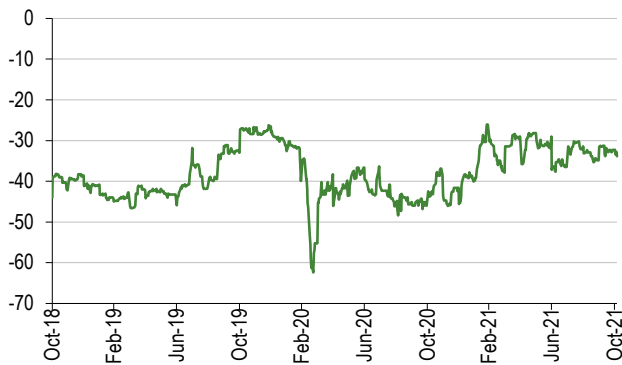
Source: Bloomberg, Edison Investment Research

Valuation: Board targeting a 20% discount

UIL's shares are currently trading at a 33.3% discount to cum-income NAV, which is narrower than the 34.3% to 39.1% range of average discounts over the last one, three, five and 10 years (based on monthly NAVs). Jillings finds the company's continued wide discount frustrating given its strong

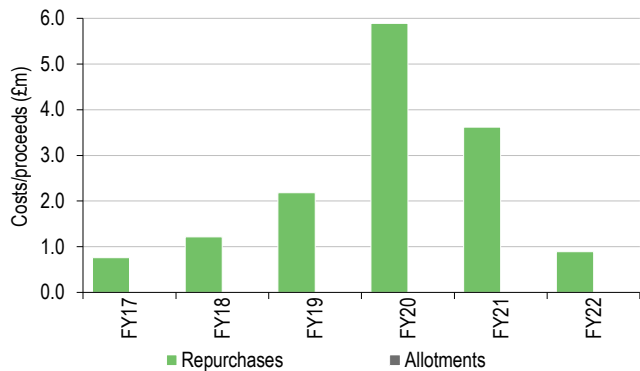
NAV performance, a lower level of gearing than historically and regular quarterly dividend payments; he is hopeful that over time, the discount can narrow to 25% and then to 20%, helped by share buybacks and continued marketing to existing and potential investors. In FY21, c 1.6m shares (c 1.9% of the share base) were repurchased.

Exhibit 11: Discount over three years



Source: Refinitiv, Edison Investment Research. Note: Based on monthly NAVs.

Exhibit 12: Buybacks and issuance



Source: Morningstar, Edison Investment Research

Fund profile: Seeking undervalued assets

UIL began trading on 20 June 2007 as the successor vehicle to Utilico Investment Trust, which was launched in August 2003 (for more information about the company's history, please see our December 2019 [initiation report](#)). It is a Bermuda-registered company listed on both the Specialist Fund Segment of the London Stock Exchange (which does not have any free float requirements) and the Bermuda Stock Exchange. UIL is managed by ICM Investment Management and ICM (collectively referred to as [ICM](#)), which has c £2bn of assets directly under management and is responsible for a further c £17bn of assets in subsidiary investments. ICM has more than 70 staff based in offices in Bermuda, Cape Town, Dublin, London, Seoul, Singapore, Sydney, Vancouver and Wellington. Manager Charles Jillings and the rest of the ICM investment team aim to identify and invest in compelling long-term investments across the globe, where their forecast underlying values are not reflected in their current share prices. UIL may invest in shares, bonds, convertibles and other types of securities, including non-investment grade bonds. Unlisted securities of up to 25% of gross assets at the time of investment are also permitted. Derivative instruments have been used for investment purposes and efficient portfolio management, and at times currency exposure may be hedged. UIL's sector and geographic exposure is unrestricted, but at the time of investment, a single investment may not exceed 30% of gross assets (except for platforms, which may not exceed 50%). The company employs a levered strategy through ZDP shares and a limited amount of bank debt (see Gearing section on page 10). UIL's ZDP shares are listed on the Standard Segment of the Main Market of the London Stock Exchange. At end-September 2021, net gearing (ZDP shares plus borrowings) was 59.6%, which is below the board's targeted maximum of 100%. UIL's performance is benchmarked against a broad UK equity market index. Data from the company show that from inception to the end of September 2021, its NAV total return compounded at a rate of 12.3% pa.

Investment process: Long-term perspective

ICM's investment teams are led by Duncan Saville and Charles Jillings. The other senior members of the team are Jacqueline Broers, Jonathan Grocock and Mark Lebbell, all focusing on the

telecommunications, utilities and infrastructure sectors; fixed income specialist Gavin Blessing; Dugald Morrison, who covers resources; Jason Cheong and Matt Gould, who focus on technology and emerging technologies; and Alasdair Younie covering financial services. UIL seeks to generate long-term capital growth by investing in undervalued assets across the globe. Businesses may be under-priced for a variety of reasons including technological change, competition, an inefficient balance sheet, an underperforming management team or a lack of investor interest. Around 75% of UIL's portfolio is invested in four ICM-managed funds, referred to as 'platforms': Somers (financial services), Zeta Resources (natural resources), Utilico Emerging Markets Trust (emerging markets utilities and infrastructure) and Allectus Capital (technology, with a particular focus on fintech). Jillings suggests this approach offers the following benefits:

- **Focused strategy** – each platform has a dedicated mandate and the strategy has an objective of finding and implementing attractive investments within these.
- **Dedicated research analysts** – for each platform they are focused on understanding existing portfolio businesses and identifying compelling investments.
- **Financial support** – ability to draw on UIL's support and financial backing.
- **Deep knowledge** – utilising ICM's knowledge across many jurisdictions to optimise investment opportunities and undertake corporate finance-led transactions.

The remaining c 25% of the fund is in direct holdings including Australian gold miner Resolute Mining. The manager stresses the importance of supporting investee companies with their capital requirements and says UIL may often be among their largest shareholders, maintaining regular contact with them. There is no limit as to how much of a company UIL can own, and it may sometimes take legal or management control of a firm.

UIL's approach to ESG

ICM is committed to a strong environmental, social and governance (ESG) framework and is taking steps to strengthen its policy and public profile. The company has recently become a signatory of the United Nations (UN) Principles for Responsible Investment (PRI). The UN PRI is an international organisation that works to promote the incorporation of ESG factors into investment decision-making. UIL's board believes it is in shareholders' best interests to consider ESG factors when selecting and retaining investments. In conjunction with assessing the financial, macroeconomic and political drivers when making and monitoring an investment, the manager embeds ESG opportunities and risks into the firm's investment process. Companies are scanned using a rigorous in-depth framework. However, the decision on whether to make an investment is not made on ESG grounds alone. Factors are incorporated into the process in three main ways:

- **Understanding** – in-depth analysis of the important business issues faced by potential and current holdings as well as a deep understanding of the industries in which they operate.
- **Integration** – incorporation of the understanding into full company analysis to ensure there is a clear and complete picture of the investment opportunity.
- **Engagement** – regular communication with investee companies, both virtually and on location, where possible, to discuss and identify any gaps in their ESG policies and to further develop and improve their ESG disclosure and implementation.

The board believes that an analysis of ESG factors helps to enhance the understanding of a company, as these factors affect their business models and their long-term ability to generate sustainable returns. It also enables UIL's investment team to fully question a company's investment potential from a variety of perspectives.

Gearing: ZDP shares and bank debt

UIL follows a levered strategy using ZDP shares and bank debt. It has a £50m senior secured multicurrency revolving facility with Scotiabank Europe, which expires at the end of September 2022. The board stated its commitment to reduce the company's debt and gearing in the FY14 annual report and it has fallen from more than 150% at 30 June 2013 to c 49% at 30 June 2021. At the end of September 2021, net gearing was 59.6%, which is well below the board's 100% maximum target.

UIL has an exemplary track record of redeeming its 2012, 2014, 2016, 2018 and 2020 ZDP shares. The company's capital structure provides holders with attractive yields and a range of maturity dates, which enables it to realise a smaller number of investments in advance of each redemption date, so is therefore less disruptive to the portfolio. Exhibit 13 shows UIL's current four tranches of ZDP shares spread over seven years, they are issued by UIL Finance, a wholly owned subsidiary of UIL. The company's capital growth is driving higher ZDP cover, and its financing costs have declined meaningfully in recent years from an average rate of 6.3% at the end of June 2013 to 4.5% at the end of June 2021.

Exhibit 13: ZDP shares (at 30 September 2021)

	2022	2024	2026	2028
Accrued capital entitlement (p)	137.65	119.90	118.22	102.50
Share price (p)	140.50	121.00	116.00	100.00
Premium/(discount) to NAV (%)	2.1	0.9	(1.9)	2.3
ZDP cover* (x)	4.67	3.40	2.73	2.27
Yield to redemption* (%)	4.3	4.4	5.4	6.1
ZDP redemption value (p)	146.99	138.35	151.50	152.29
Shares in issue (m)	35.6	30.0	25.0	25.0
Ticker	UTLF	UTLG	UTLH	UTLI

Source: UIL, Edison Investment Research. Note: *Based on final redemption values.

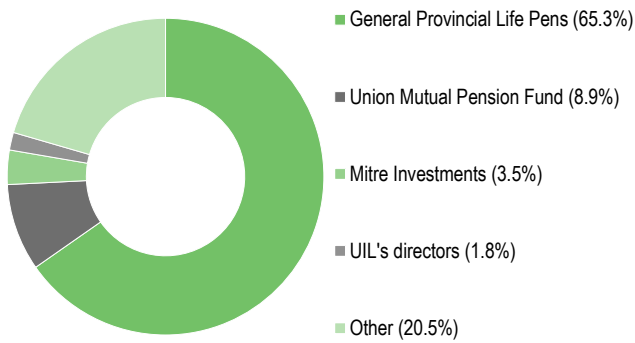
Fees and charges

ICM receives an annual management fee of 0.5% pa of UIL's total assets less current liabilities (excluding borrowings and excluding the value of all holdings in companies managed or advised by ICM or its subsidiaries from which it receives a management fee), along with 45% of ICM's costs of providing company secretarial services. ICM is entitled to a 15% performance fee on NAV returns over benchmark at the higher of 5.0% or the UK gilt five- to 10-year index post-tax yield plus RPIX inflation. The NAV must exceed the high water mark NAV from when the performance fee was last paid (adjusted for capital events and dividends paid) and the fee is capped at 2.5% of financial year-end NAV (adjusted for capital events and dividends paid). It is also reduced to take into account any performance fees paid to ICM by companies where UIL is an investor.

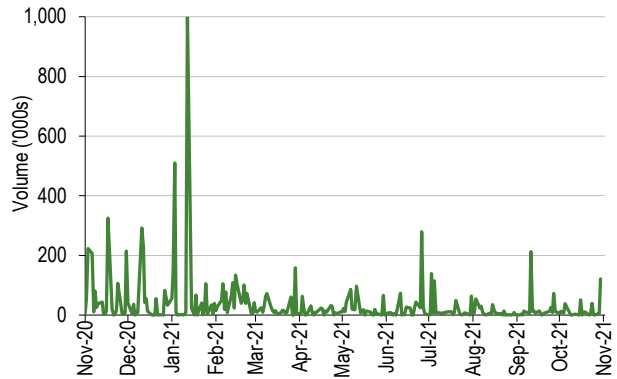
In FY21, UIL's ongoing charges (excluding performance fees) were 2.3%, 20bp higher year-on-year versus 2.1% in FY20. Including performance fees, ongoing charges were 4.6%; there was no performance fee payable in FY20. UIL's ongoing charges appear high compared with other investment companies as the expense calculation is based on a percentage of average net assets (after the deduction of the ZDP shares).

Capital structure

UIL has 84.0m ordinary shares outstanding, the majority are of which are held by companies associated with ICM manager Duncan Saville; hence, the free float is c 21%. The company has an average daily trading volume of c 37k shares.

Exhibit 15: Major shareholders


Source: UIL, as at 30 September 2021.

Exhibit 16: Average daily volume


Source: Refinitiv. Note 12 months to 5 November 2021.

The board

Exhibit 14: UIL's board of directors

Board member	Date of appointment	Remuneration in FY21	Shareholdings at end-FY21
Peter Burrows (chair since November 2015)	September 2011	£46,000	909,617
Alison Hill	November 2015	£34,000	81,619
Christopher Samuel	November 2015	£34,000	212,991
David Shillson	November 2015	£34,000	123,109
Stuart Bridges (chair of the audit & risk committee)	October 2019	£44,000	136,937

Source: UIL

Collectively, UIL's board has experience in a wide range of financial services and the law. Shillson is considered to be a non-independent director as he is a senior partner of a law firm that has acted for associates of UIL and ICM from time to time.

In FY22, the remuneration will rise to £47,600 (+3.5%) for the chairman; to £45,500 (+3.4%) for the chairman of the audit and risk committee; and to £35,200 (+3.5%) for the other three directors.

General disclaimer and copyright

This report has been commissioned by UIL and prepared and issued by Edison, in consideration of a fee payable by UIL. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2021 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia