Premier Energy & Water : PEW

MARTEN & CO

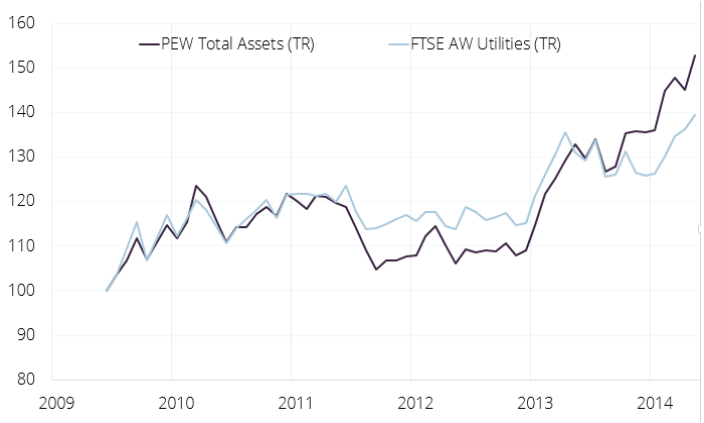
A step change in performance

10/06/2014

Almost two years ago the management team and the investment style of Premier Energy and Water changed with greater emphasis placed on maximising the company's total return. The record since PEW's revamp in the summer of 2012 is impressive; the portfolio delivered a total return of 44.1% from June 2012 to end May 2014. The shift from more or less tracking the return on the FTSE All World Utilities Index to significantly outperforming it is obvious in the chart below. Now, with just a year and a half to go before its scheduled wind up, we think many shareholders will support a continuation beyond this date.

PEW total return on Gross Assets vs.FTSE All World Utilities Index over 5 years

PEW does not have a benchmark but, for comparison purposes, we have used the FTSE All-World Utilities Index throughout this report.



source: Company, Morningstar

Revamped investment approach

In June 2012 James Smith was appointed as the investment manager of PEW, having spent the previous 13 years as lead analyst / assistant fund manager at Utilico, a specialist utility and infrastructure investor. Together with Claire Long, James immediately set about repositioning the portfolio, refocusing the trust on a combination of high growth and undervalued positions. The new portfolio bore little resemblance to the previous one, with a greater emphasis on emerging markets, smaller companies and special situations and lower weightings to traditional developed market, utility companies.

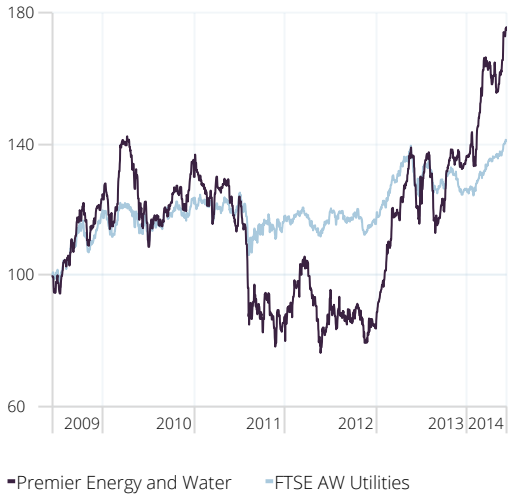
On a gross assets basis, the portfolio has reaped the rewards of the revamp, generating 44.1% between the date of James's appointment and the end of May 2014, substantially ahead of the return on the FTSE All-World Utilities Index which returned 22.3% and the wider global equity market (FTSE All-World Index) which returned 37.2%. In addition, ordinary shareholders have also benefited from the capital structure, propelling their total return to 125.4%.

The trust now holds a wide range of utility companies in a global portfolio. Many of these may be unfamiliar to non-specialist investors. High returns to date have been made in areas as diverse as Chinese waste incineration and wind farms, Indian coal-fired electricity generation, Italian municipally owned multi-utilities, in addition to more expected names such as National Grid and EdF. While there may be a perception in some quarters that utiliities are dull. PEW's managers would argue that their portfolio is anything but.

AIC Sector	**Split Capital**
Benchmark	**None**
Base Currency	**Pound Sterling**
Ordinary share price	**1.86**
Ordinary share NAV	**1.99**
Discount (-ve) / Premium (+ve)	**-6.66**
Ordinary share yield	**6.65**
ZDP price	**2.11**
ZDP NAV	**2.01**
Ongoing charges (%) on ords	**3.90**
Ongoing charges (%) on gross assets	**1.40**

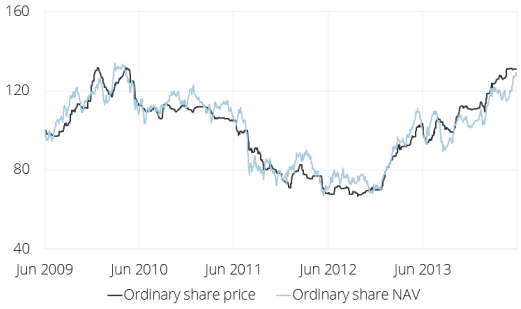
Ordinary share price TR vs. benchmark TR

Time Period: 11/06/2009 to 10/06/2014



Ordinary share price vs. NAV

Time Period 10/06/2009 to 09/06/2009



www.premierfunds.co.uk

Domicile	United Kingdom
Inception Date	04/11/2003
Market Cap. of ords (£m)	31.7
Ordinary Shares Outstanding	17,068,480
Avg Daily Volume (3 Mnths)	22,949

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History, Objective & Structure

About the fund

PEW is a split capital investment trust with two classes of shares; zero dividend preference shares, which are entitled to a capital sum that accrues at the rate of 6.53% per annum from 151.39p on 17 December 2009 to 221.78p on 31 December 2015, and ordinary shares which receive dividends over the life of the trust and are entitled to any remaining capital on 31 December 2015 and all of any remaining revenue reserve. PEW started life in November 2003 following the reconstruction of Legg Mason Investors International Utilities Trust. In December 2009 shareholders voted to extend its life to 31 December 2015 – the repayment date of the zeros. In December 2010 the fund expanded, issuing shares in connection with the reconstruction of another Premier fund, Premier Renewable Energy Fund Limited.

Investment Objective

The Premier Energy and Water Trust ("PEW") aims to achieve a high level of income and realise long-term growth in the capital value of its portfolio. It invests principally in the equity and equity related securities of companies operating in the energy and water sectors as well as other infrastructure Investments.

Investment Strategy

Where can it invest? Anywhere in the world - there are no restrictions on the proportion of the portfolio of the Company that can be invested in any one geographical area

What can it hold? Equity and equity-related securities but no investment in physical commodities is permitted. No more than 15% of the portfolio in a single security (at the time of acquisition). Up to 20% in other collective investment vehicles and, within that limit, up to 15% of the portfolio in other investment companies provided that they themselves invest in utilities or infrastructure. Not more than 10% of gross assets invested in funds unles those funds' investment policies say they will not invest more than 15% of their assets in other investment companies. Up to 15% in unquoted securities.

What risk controls are in place? No more than 20% exposure to the creditworthiness or solvency of any one counterparty and no cross-finance between the businesses forming part of its investment portfolio including provision of undertakings or security for borrowings by such businesses for the benefit of another. PEW will not have treasury functions in common between the Company and an investee company. PEW will not conduct any significant trading activity.

In addition to the 15% restriction on investment in a single company, the Board seeks to achieve a spread of risk in the portfolio through monitoring the country and sector weightings of the portfolio, imposing a minimum of twenty stocks in the portfolio.

The Company is geared through zero dividend preference shares but does not use other gearing on a long-term basis.

Capital Structure

21,180,373 zero dividend preference shares ("ZDPs"). Each ZDP share has a final capital entitlement of 221.78p on 31 December 2015 subject to there being sufficient capital in the Company. The ZDP Shares are not entitled to any dividends. The ZDP shareholders have the right to receive notice of, to attend and to vote at all general meetings of the Company. The ZDP Shares are qualifying investments for Individual Savings Accounts ("ISAs") only if they were purchased earlier than 5 years before their final redemption date of 31 December 2015. For more details see page 7.

17,068,480 ordinary shares. The ordinary shares are entitled to all of the Company's net income available for distribution by way of dividends. On a winding-up, they will be due any undistributed revenue reserves and any surplus assets of the Company after the ZDPs have been paid in full. The ordinary shareholders have the right to receive notice of, to attend and to vote at all general meetings of the Company. The ordinary Shares are qualifying investments for ISAs.

We asked the fund managers why someone would invest in PEW

Portfolio diversity	1) To gain access to a range of stocks that are not available to UK investors; it is hard for the average investor to make an informed decision about a Chinese renewable energy company or an Indian power producer.
Utility Yield + Growth	2) You get a "normal" utility type yield by buying the ordinary shares but with exposure to stocks with higher potential for earnings growth than the average utility company.
Stock-picking	3) The days when just buying a spread of utility stocks allowed you to outperform stock market averages have passed according to James Smith – he believes outperformance of the market as a whole will be more reliant on stock picking.
Subcontract	4) Rather than devoting the time and effort needed to analyse this sector of the market on a global basis, why not just subcontract this part of your portfolio to a specialist team dedicated to the sector?
Recent performance	5) While it is routinely cited that past performance is no guide to the future, recent performance has been strong, suggesting that the new investment approach is working.
Structure	6) The mixture of stocks in PEW's portfolio and its structure allow for exposure to a number of low or zero yielding companies with the potential for higher capital growth than a basket of mature utility companies.

Investment Approach

Choosing from 300 companies

PEW's portfolio focuses on the global energy, water and waste sectors and actively seeks to avoid commodity risks such as oil & gas production. The managers reckon their potential universe comprises about 300 companies ranging from the very large to those with a market capitalisation of a few tens of millions of pounds. The universe includes a mixture of regulated and competitive businesses.

Bottom up stock picking with macro overlay

The portfolio is constructed on a bottom up basis – selecting each stock on its own merits - but an evaluation of macroeconomic, political and industry-specific themes does much to shape it. For example, back in 2012 they were excited by the prospects for Chinese renewable energy companies; the Chinese government had made a commitment to greatly expand its renewable energy sector. They identified a number of companies they thought might benefit from this trend and selected a few of these for the portfolio, China Everbright International for example, a waste incineration and waste water treatment company.

Sift the universe using their own model

The managers split the universe between them and after some initial screening select about 100 stocks that they follow closely. They have built a proprietary system that compares the earnings forecasts and ratings of all the stocks they follow. They have a time horizon of about three to five years. For some stocks they have constructed their own discounted cash flow models (these tend to be for companies at an earlier stage of life) otherwise they base the inputs to the system on forecasts drawn from research written by analysts they respect. Finally, before they buy a stock they complete a rigorous analysis of all the potential risks.

Focused portfolio

The portfolio is relatively concentrated. Although there are a handful of stocks where they have "toe in the water" positions of less than 1%, most stocks go into the portfolio with an initial target weighting of 1.5% - 3.0% and may go above this if they have a particularly strong conviction about the company's prospects. Thereafter stocks get to be large positions by performing well. The Board have oversight of the portfolio and monitor its weightings. The maximum initial position size is 15% of the portfolio but, in practice, they believe 10% is about the maximum size they would let any position get to.

Room to expand

The managers believe their approach would suit a portfolio up to about £150m in size, which gives ample room to expand PEW. The managers say the Investment trust structure helps them take longer term decisions and allows them to hold stocks that might be too illiquid for an open-ended fund. They do not use cash tactically – for one thing they are mindful of the drag effect of holding cash in a geared fund. If they thought the market was very overvalued they might seek to hedge it. They have hedged currency exposure in the past but again this will only be done in extremis. All the gearing is provided by the zeros – the trust has no bank borrowing.

Sell discipline

Sales of stocks are triggered primarily because they appear fully valued. A secondary reason would be an adverse change in fundamentals. Continuing with the China Everbright example, after very strong share price performance in 2013, (for a time it was the trust's largest holding), its rating moved upwards to around 25x which, despite 25% visible forward earnings growth, the managers felt was close to fully valued. They therefore began to reduce the holding during the second half of last year and have continued to do so in the early part of 2014.

Portfolio

Asset allocation and risk considerations

With the freedom to invest anywhere in the world and unconstrained by any need to match weightings to a benchmark, PEW's portfolio is divided between emerging and developed markets but with a bias to the former. The fund holds companies with a wide range of market capitalisations.

While some investors might believe that by upping the exposure to emerging markets and smaller companies would increase portfolio risk, the managers believe in many instances the contrary is true. Take power price risk as an example. In Europe politics, and sluggish demand are putting downward pressure on prices. By contrast in India there is a deficit of power and so this excess demand underpins prices. Regarding political risk; in China the government sets out long-term ambitions and plans accordingly. In the UK a commitment to renewables and on-shore wind seems to be evaporating in the face of local opposition to wind farms. Fuel price risk is another factor to be considered. In the UK there is a worry over gas prices; with climate change policies discouraging coal fired power production and successive governments side-stepping decisions needed to replace the UK's nuclear power stations, the focus is on gas. Gas plants also supply much of continental Europe's power. Politicians have not overcome aversion to shale gas production and so the stand-off with Russia over Ukraine is worrying given the importance of Russian supplies to the European gas market.

In developed markets the managers generally prefer regulated businesses as this reduces the chance of political interference. As an example, they think SSE is attractive because of its transmission and distribution businesses (with respect to the supply business, the managers think most of the political noise is just that and threats of curbing power prices are not practical).

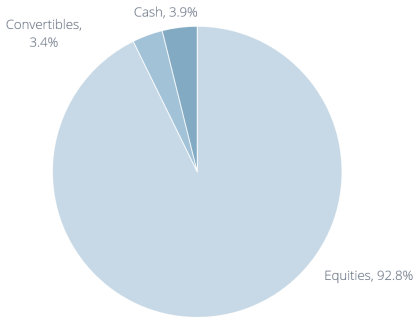
The US is a sizeable part of the global utility index but regulation, which takes place on a state by state basis, is more politically driven than elsewhere. The sector is also well covered by US analysts, so there is less opportunity for the managers to find investments that can create significant value for the fund. In Australia they think valuations are too high at the moment and they are worried about currency risk.

Competitive businesses in emerging markets are often less risky than in developed markets because demand for power is increasing and market forces are therefore generally more benign. This is reflected in the composition of the portfolio.

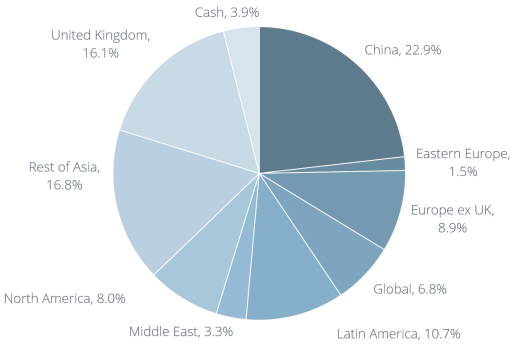
In India they are attracted to the electricity sector because the excess of demand over supply leads to high utilisation and healthy margins. Furthermore renewable energy, such as wind farms, can be built at low cost, meaning these assets can be operated profitably without subsidy. The UK listed small cap. coal fired generator, OPG Power Ventures, now the largest stock in the portfolio, is the main source of exposure, although the fund has some smaller weightings to Indian renewable energy stocks.

The managers upped the weighting to Latin America to 10% last year as they thought valuations of companies in the region looked attractive but, as yet, this decision has not paid off. They are worried about Brazil where the government seems to be becoming more populist and weak economic growth is affecting demand.

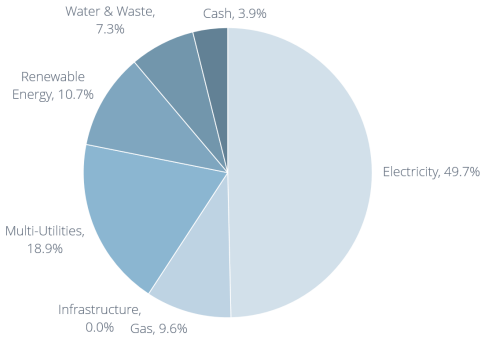
Portfolio split by asset type 31/05/14



Portfolio split by geography 31/05/14



Portfolio split by sector 31/05/14



Portfolio concentration 31/05/14

Top ten = 44.6%

OPG Power Ventures	10.2%
Renewable Energy Generation	6.4%
Fortune Oil	4.4%
Huaneng Power International	3.6%
GDF Suez	3.5%
Ecofin Water & Power CULS	3.4%
SSE	3.4%
China Power Intl. Develop	3.3%
Qatar Electricity & Water	3.3%
National Grid	3.1%

Individual Stocks

OPG Power Ventures (OPG) 10.2%

OPG is an owner and operator of coal fired power stations in India. India, with a fast growing population and chronic underinvestment in its infrastructure, has large excess of demand for power and this keeps power prices high. The problem was exacerbated by the Indian government granting permissions to build power stations alongside undeveloped coal mines but then neglecting to grant the licences needed to develop the mines. By designing a smaller scale plant that can run on either imported or domestic coal and ensuring all permits are in place prior to construction, OPG has developed smaller scale, but very profitable power stations in Southern India, near Chennai and is planning on both expanding its operations in Chennai and commissioning a 360MW plant in Gujarat later this year.

Renewable Energy Generation (WIND) 6.4%

One of the biggest recent changes to the portfolio was the purchase of a significant addition to the fund's existing holding in WIND. WIND is a constructor, owner and operator of wind farms in England and Wales and also has a plant that burns used cooking oil. It owns 14 onshore wind farms with a generating capacity of 67MW, has a further five projects with planning permission that would generate 30MW and a development pipeline in excess of 100MW. The managers believe that WIND is substantially undervalued because its current share price is underpinned by existing assets. The construction of new permitted sites and additional planning permissions received will add further incremental value. If the Conservative Party follow through with their proposal to limit further onshore wind development, WIND's existing business could be run for cash, providing an attractive income stream for investors.

Fortune Oil (FTO) 4.4%

Fortune Oil (FTO) is a London listed company, headquartered in Hong Kong, that has some ancillary businesses (including an aircraft refuelling business majority owned by BP) but is mainly focused on the supply of gas in China through an investment in, Hong Kong listed, China Gas Holdings, one of China's largest gas distribution companies. At 30 September 2013 China Gas Holdings had exclusive concession rights to supply gas to 208 Chinese cities, having increased the the volume of gas it supplied over the previous six months by more than 25%. Moving forward, China plans to grow its domestic gas market by 20% a year, exceeding 260 billion cubic metres per year by 2015.

Other notable holdings

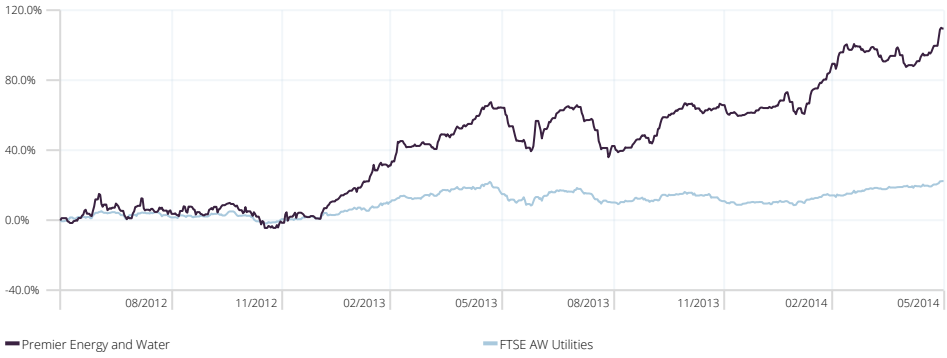
PEW has a holding in a competing fund, Ecofin (ECWO), through Ecofin's convertible loan stock. The managers think the yield on this is attractive – about 6%. The convertible is 5x covered by the assets of the fund and Ecofin's net asset value is more than 10% above the conversion price of the loan stock (173p). Ecofin's ordinary shares do trade at a wide discount, nevertheless there is a chance that the convertible might soon have some equity value.

Other holdings worth a mention included Essar Energy bonds, recently sold just below par at a profit of more than 60%; Huaneng Power International, a Chinese coal fired power generator and recent entry into the top 10, which is benefitting from falling coal prices in China; and Acea, the municipal utility supplier of Rome's water and electricity and collector of its waste, which is currently showing a gain on book cost in excess of 150%.

Performance

Ordinary share NAV and benchmark total return performance

Time Period: 01/06/2012 to 31/05/2014



	1 month	3 months	6 months	1 year	2 years	3 years	4 years	5 years	10 years
Premier Energy and Water	11.69	10.60	26.35	27.51	109.61	40.09	42.51	73.51	211.90
FTSE AW Utilities	2.47	7.13	10.29	6.45	22.53	16.31	21.97	37.83	157.62

Ordinary share NAV monthly performance relative to FTSE AW Utilities

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2014	-0.49	12.32	0.64	-5.94	9.22								
2013	9.94	9.05	5.71	3.72	9.70	-3.13	1.66	-7.55	0.94	10.64	3.74	-0.38	53.58
2012	5.29	7.86	4.66	-7.80	-10.67	7.64	-5.03	0.14	-0.79	3.27	-6.12	1.93	-2.59
2011	-2.10	-3.53	5.88	-1.98	-1.45	-3.62	-6.32	-8.14	-10.75	3.86	-3.54	-2.21	-29.15
2010	-2.50	2.24	11.30	-2.31	-5.75	-6.29	2.66	-2.10	3.22	0.30	-0.69	4.23	1.82
2009	-5.08	-1.37	4.73	5.21	3.82	0.51	1.39	-0.56	3.48	-1.26	2.29	0.78	12.98

Commentary on recent performance

When looking at long-term performance, investors should bear in mind that the new management team has been in place since June 2012, with the portfolio being substantially restructured at that point.

So far this year, the trust's largest holding, OPG Power Ventures, has been its strongest performer, with the shares rising 81%, contributing significantly to its overall performance. In Europe Acea, and another Italian municipal utility, Hera, have each risen over 25%, and the French multi utility, GDF Suez, a long term holding for the trust, has produced a similar performance, having signalled that asset disposals and cost cutting have largely come to an end and the group is now returning to a growth focus.

Exposure to China has been reduced this year, from 27% at the end of 2013, to 23% at the end of May. The trust benefitted significantly in 2013 from its holdings in environmental stocks that were boosted by explicit policy commitments to a cleaner China. While Fortune Oil has continued to perform well in 2014, other Chinese environmental stocks such as wind farm operators China Suntien and Huaneng Renewables have stumbled, for while the Chinese government's commitment to reduce pollution remains as strong as ever, the development of the grid infrastructure required to transmit wind power has not quite kept pace with this commitment. As a result both companies have had to rein in their wind farm development ambitions in the short term, which disappointed the market when they reported their full year results in March. However, the managers are confident that the transmission infrastructure will eventually catch up with the developers' ambitions, and that China's wind speeds offer significant scope for further improvement (continued on page 7)

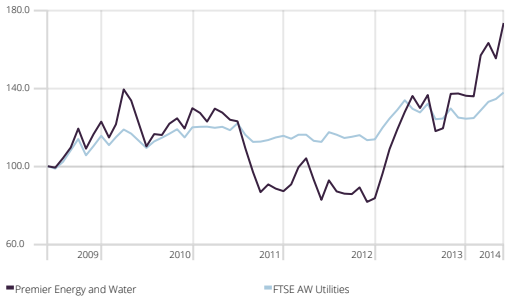
Five year return/risk analysis

Time Period: 01/07/2009 to 31/05/2014

Annualised Return	12.02
Excess Return	5.01
Standard Deviation	26.42
Sharpe Ratio	0.55
Tracking Error	19.27
Beta	1.94

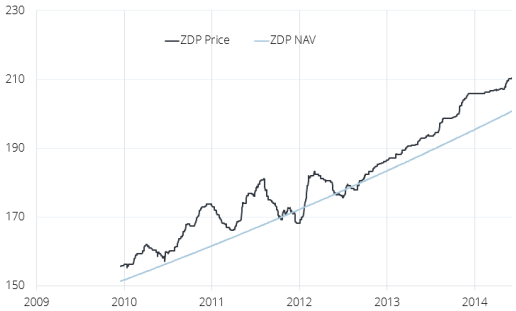
Ordinary share price vs. benchmark

Time Period: 01/06/2009 to 31/05/2014



ZDP share price vs. ZDP NAV

Time Period 17/12/2009 to 31/05/2014



Five year Bull and Bear returns

Time Period: 01/07/2009 to 31/05/2014

	Fund	B'mark
Best Month (%)	15.5	5.8
Worst Month (%)	-13.6	-7.4
Best Quarter (%)	42.2	15.4
Worst Quarter (%)	-29.5	-7.9
Up Months (%)	52.5	64.4
Down Months (%)	47.5	35.6
	Fund	B'mark
Months of longest upturn	6	5
Upward move %	66.52	10.80
Run started	01/11/2012	01/12/2013
Run ended	30/04/2013	30/04/2014
Months of longest downturn	6	3
Downward move %	-33.08	-7.95
Run started	01/03/2011	01/03/2010
Run ended	31/08/2011	31/05/2010

Commentary on recent performance (*continued*)

in utilisation as it does so, and have retained the positions as a result.

The purchase of Huaneng Power International, whichn generates more electricity per year than is used in the UK, is not the contradiction that it might at first appear, as China's growing power requirements cannot be met by an increase in renewable energy alone, and technological developments have significantly reduced the emissions of modern coal fired power stations. Investors would be correct in thinking that current slowdown in the Chinese economy has been accompanied by a slowdown in growth in demand for electricity, and therefore lower revenues for power generators. However, China's oversupplied coal market has seen a sharper fall in prices, pushing up margins and therefore earnings of the coal fired generators. The managers feel this margin recovery is not reflected in share prices, and as a result, Huaneng Power joins China Power International, which also derives approximately half of its earnings from hydro generation, in the top ten. Given the high yields on offer, both stocks will also add significantly to the revenue account for ordinary shareholders.

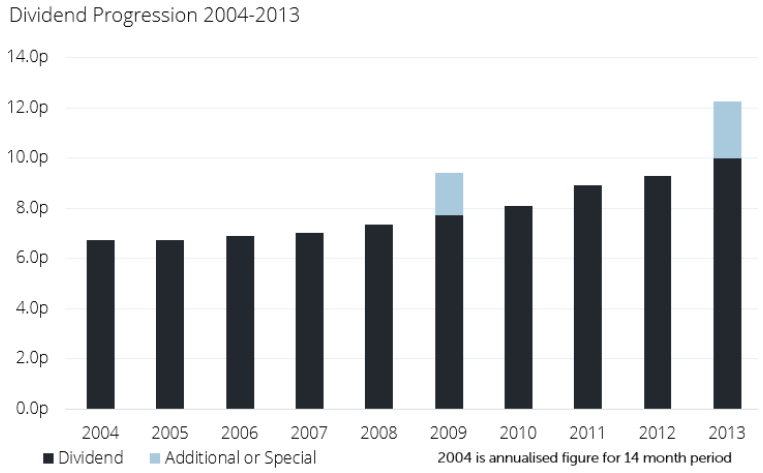
Zero Dividend Preference shares

The attributable asset value of the ZDPs as at the date of this report was 200.8p (the ZDPs were issued at 151.39p on 17 December 2009 and their asset value accrues at 6.53% per annum, with a final entitlement of 221.78p per share on 31 December 2015.

The ZDPs were trading at 210.625p per share as at the date of this report, equivalent to a gross redemption yield of 3.4% per annum. The cover on the ZDPs at the end of May 2014 was 1.64x.

The ZDPs gear the ordinary shares 2.2x as at the end of May. A 5% increase in the value of the gross assets of the fund would equate to an 11.1% increase in the value of the ordinary shares and the converse would apply to a 5% fall in the gross assets.

Dividend Income



PEW pays dividends in each calendar quarter; three smaller dividends and a larger final dividend payable in March. In 2013 PEW generated a revenue return of 11.25p per ordinary share. The Board declared a base dividend of 10.0p for the year, 7.5% higher than the 9.3p paid for 2012, plus special dividends totalling 2.25p.

The managers believe income generation in the portfolio should remain healthy this year. They have been reducing a number of Chinese renewable stocks that yield c1.5% and switching into Chinese thermal power producers which yield c6%. The Latin American stocks yield between 8% and 10% and OPG, the largest stock in the portfolio, has just announced a dividend policy, with the first dividend expected to come in 2015. On the other hand Sterling strength is likely to see a reduction in the Sterling value of overseas dividends.

The Board decided to reduce PEW's dividend reserve ahead of the scheduled wind-up in 2015 but wanted to avoid paying it all out in one lump sum as that might have tax implications for some shareholders. In August 2013 they announced that they would instead pay a series of additional dividends to run down the balance gradually.

Competing Funds

In addition to PEW, the managers also run a smaller open-ended fund, the Premier Global Power & Water Fund, which has more of an emphasis on developed market mature utility companies but with considerable commonality of holdings.

PEW's closest competitor within the closed end sector is probably Ecofin Water and Power Opportunities, which has a lower exposure to emerging markets. Utilico Emerging Markets differs in that it has an emerging markets only investment policy, but a wider remit, encompassing transportation infrastructure. Renewable energy income funds such as Greencoat and Bluefield Solar offer a yield comparable to PEW but lack the growth focus of PEW's portfolio, likewise infrastructure funds such as John Laing Infrastructure and HICL. Specialist renewable energy funds such as Impax and Blackrock have a higher exposure to technology and capital goods, increasing risks in our view, and lack PEW's yield.

	Discount (%)	Net Assets £m	Gross assets £m	Yield (%)	Gearing (%)	3 mth	1 year	3 years	5 years
Premier Energy & Water ords	6.3	35	77	6.7	122	10.6	27.5	40.1	73.5
Ecofin Water & Power ords	19.2	400	598	4.3	41	9.0	20.7	26.0	37.1
Utilico Emerging Markets	5.2	413	457	3.3	6	0.7	-3.2	17.8	84.2

The table above, which has some basic data on each fund and their net asset value performance over the time periods ending on 31 May 2014, shows that Premier Energy & Water's ordinary shares have outperformed the peer group in recent times - helped by the change in the investment strategy and the gearing provided by the zero dividend preference shares. PEW is still by far the smallest of these funds but the ordinary shares pay a higher yield than is available on the other two funds.

We believe that, if PEW's performance record can be sustained, it deserves not only another lease of life but also to expand. Investors must bear in mind though that one effect of the gearing provided by the zero dividend preference shares is that PEW's net asset value performance may be more volatile than the other two funds.

The Managers:

Premier Fund Managers Ltd ("PFM Ltd"), is a subsidiary of Premier Asset Management Ltd ("PAM Ltd"). PAM Ltd had approximately £2.8bn of funds under management at 31 May 2014. PFM Ltd is authorised and regulated by the Financial Conduct Authority. The Company's portfolio is managed by James Smith and Claire Long.

James Smith

James joined Premier in June 2012, after spending fourteen years at Utilico, specialising in the global utilities, transportation infrastructure and renewable energy sectors. During this time, he gained extensive experience in both developed and emerging markets. He was previously a director at Renewable Energy Holdings PLC and Indian Energy Limited. James is a Chartered Accountant and Barrister.

Claire Long

Claire joined Premier in December 2008. Previously she ran a UK smaller companies fund at Rothschild Asset Management after spending four years at Foreign and Colonial where she covered a range of markets, including the UK and Japan. She is an Associate of the CFA UK.

Management Fees

The base fee is 1.0% per annum of the gross assets (i.e. including the assets attributable to the ZDPs), charged 40% to revenue and 60% to capital. In effect the ordinary shareholders bear all of this fee - it acts to increase the target return the portfolio has to achieve before the ordinary shareholders make money. This does have the effect of inflating PEW's ongoing charges ratio. There is also potentially a performance fee, which, if earned, is allocated between capital and revenue based on the outperformance attributable to the capital and revenue respectively. The performance fee calculation relates to each accounting year of the Company commencing with the period ended 31 December 2004 and is triggered if (i) the dividends paid or proposed to be paid on each Ordinary share (*continued on page* 9)

Management Fees (*continued*)

in respect of that accounting year (on an annualised basis in respect of the first accounting period) equals at least 6.75p and (ii) the gross assets at the end of the year exceed the highest level of gross assets at the end of any previous accounting year or (if higher) the initial gross assets adjusted for share buybacks or share issuance by more than 7.5%, subject to appropriate adjustments for changes in capital and other conditions. In that event, the performance fee will be equal to 15% of the excess. In practice the low returns generated by the old investment approach put the performance fee out of reach in earlier periods and no performance fee was payable in respect of the year ended 31 December 2013. Now though, the improvement in performance is putting the fee in sight again. This provides another incentive for the managers to keep the good run of performance going.

The Board

Geoffrey Burns (Chairman)

non-executive, owns 80,411 shares

He has worked in the investment fund industry for over thirty years. From 1997 to 2000 he was a director and head of investment trusts at Murray Johnstone Ltd. Mr Burns is an adviser to a number of government and multilateral agencies who make investments in private equity funds in emerging markets. Mr Burns is Chairman of City Natural Resources High Yield Trust PLC. Mr Burns was appointed as a non-executive director of the Company on 12 September 2003.

Ian Graham (Chairman of the Audit Committee)

non-executive, owns 22,032 shares

He has over twenty years' experience as an investment analyst, more than half of which were spent covering utilities, having worked at Scrimgeour Kemp-Gee, Simon & Coates, Nat West Securities and Merrill Lynch until 2001. Mr Graham was appointed as a non-executive director of the Company on 12 September 2003 and was appointed the Chairman of the Audit Committee on 1 August 2012.

Michael Wigley

non-executive, owns 125,150 shares

He is a director of The Conygar Investment Company plc. He was formerly a director of Matheson Investment Ltd and a non-executive director of Development Securities PLC. He was deputy chairman of Legg Mason Investors International Utilities Investment Trust, the predecessor company. Mr Wigley was appointed as a non-executive director of the Company on 12 September 2003.

Charles Wilkinson

non-executive, owns 31,223 shares

He is a solicitor and a resident of Guernsey. Until March 2005 he was a partner of Lawrence Graham LLP specialising in investment trusts and funds. He is a non-executive director of Landore Resources Ltd, which is quoted on the AIM Market of the London Stock Exchange and of the three Doric Nimrod Air funds listed on the Specialist Funds Market of the London Stock Exchange. Mr Wilkinson was appointed as a non-executive director of the Company on 23 February 2011.

During the year ended 31 December 2013 the Chairman received a fee of £26,000 per annum, the Chairman of the Audit Committee received a fee of £20,000 per annum and other Directors £18,000 per annum. The total directors' fees are capped at £150,000

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