Premier Miton Global Renewables Trust

Initiation of coverage

On the crest of a renewable energy wave

Investment trusts
Renewable energy equities

5 February 2021

Premier Miton Global Renewables Trust (PMGR) is the new name of Premier Global Infrastructure Trust, reflecting an official change in mandate in late 2020 that codified an established shift towards renewable energy stocks in recent years. The partial rollover of the 2020 zero-dividend preference shares (ZDPs) has resulted in a smaller pool of total assets, but the trust retains a geared strategy and has benefited from this as its newer holdings in renewable energy stocks – many of them bought in the coronavirus-driven global equity market sell-off of Q120 – have performed strongly, leading to total returns for 2020 of c 30%. PMGR is arguably unique among UK investment companies for its broad global focus on renewable energy securities, aiming for both income (current yield c 5.5%) and capital growth.

Price		**185.0p**
Market cap		**£33.5m**
AUM		**£48.4m**

NAV*		186.1p
Discount to NAV		0.6%
NAV**		188.3p
Discount to NAV		1.8%

*Excluding income. **Including income. As at 4 February 2021.

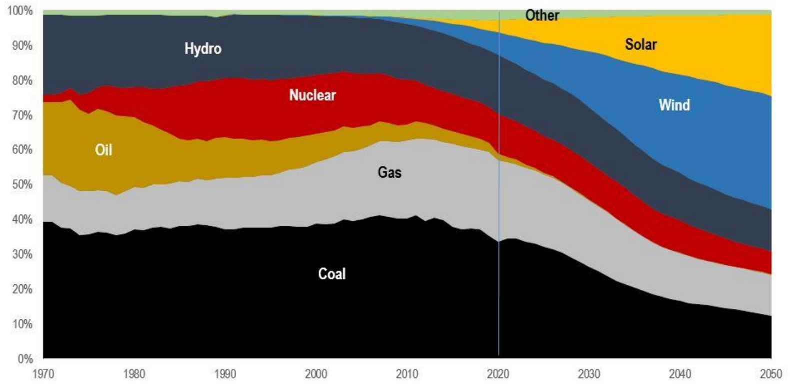
Yield		5.5%
Ordinary shares in issue		18.1m
ZDP shares in issue		14.2m
Code/ISIN		PMGR/GB0033537902
Primary exchange		LSE
AIC sector		Infrastructure Securities
52-week high/low	196.0p	78.0p
NAV* high/low	198.5p	76.8p

*Including income

Gross gearing*	45%
Net gearing*	44%

*As at 31 December 2020

Changes in global electricity generation mix, 1970 to 2050e



Source: Bloomberg New Energy Finance, New Energy Outlook 2020

Fund objective

Premier Miton Global Renewables Trust's (PMGR's) investment objectives are to achieve a high income and to realise long-term growth in the capital value of its portfolio. PMGR will seek to achieve these objectives by investing principally in the equity and equity-related securities of companies operating primarily in the renewable energy sectors, as well as other sustainable infrastructure investments. The trust is structurally geared via zero-dividend preference shares (ZDPs) maturing in 2025.

Bull points

- Strong support for increased renewable energy capacity to meet climate change targets.
- Differentiated global strategy targeting income and growth from a range of sectors.
- Energy transition is not economically sensitive.

Bear points

- Earlier-stage investments may carry greater development and technology risk.
- Possible pressure on PMGR's income and dividends from smaller pool of total assets.
- Gearing effect can be negative in a falling market.

Why invest in renewable energy now?

As the world strives to combat climate change through carbon reduction, renewable energy stocks have benefited from a combination of technological advances, a favourable regulatory environment and falling costs. Furthermore, as the marginal cost of energy sources such as wind and solar is effectively zero, renewable power is less economically exposed than fossil fuels, which could prove beneficial as the effects of the COVID-19 pandemic continue to weigh on global GDP growth.

The analyst's view

In our view, PMGR's new income-plus-growth equity investment strategy could suit an investor seeking broader exposure to the renewable energy value chain than is available from more income-focused funds investing directly in wind or solar energy and battery storage projects. While the higher capital growth potential comes with a greater risk of loss (particularly given the structural gearing), the one-year NAV and share price total returns of c 30% suggest the manager has got off to a good start.

Discount closes as new strategy beds in

At 4 February 2021, PMGR's shares traded at a 1.8% discount to cum-income NAV, compared with a longer-term average discount of c 8–9%. Having recently traded at a small premium to NAV, there is scope for this re-rating to be sustained given most funds invested directly in projects are also trading at a premium.

Analysts

Sarah Godfrey	+44 (0)20 3681 2519
Victoria Chernykh	+44 (0)20 3077 5700

investmenttrusts@edisongroup.com

Edison profile page

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Evolution from infrastructure to renewables strategy

Throughout its various prior incarnations (Premier Utilities Trust, Premier Energy & Water Trust and Premier Global Infrastructure Trust (PGIT); see Fund profile section), PMGR has always focused mainly on utilities, water and energy, rather than the more economically sensitive areas of the infrastructure space, such as airports and roads. In recent years, the trust's investments in the renewable energy sector have performed particularly well, with their weighting in the portfolio rising as a result. Fund manager James Smith says that the rotation towards renewable energy stocks initially happened as a natural result of their attractive combination of yield, growth and good investment returns, although until recently it was questionable whether the market was deep enough to sustain a dedicated renewables equity fund. 'Three or four years ago, maybe it was not, but we have seen a constant stream of new companies coming to market – not just in technology, but in building, operating and generating renewable energy,' the manager explains.

After three years of being the fund's best-performing sector exposure, by the end of 2019 renewable energy made up around one-third of the PGIT portfolio. However, the real shift came in the first quarter of 2020, when the seemingly indiscriminate global equity market sell-off as a result of the COVID-19 pandemic led to a large number of attractive investment opportunities in the renewables sector. Smith says: 'In every crisis there is an opportunity, and I thought of it as a one-off timing window to substantially increase exposure to renewables, as many companies' share prices were down 40–50%.' He explains that the long-term, fixed-price and often inflation-linked contracts enjoyed by most renewable energy generators (particularly those outside the UK) means that the only real risk to the operator is the weather, which can cause interruptions in supply. 'In theory, these companies are not economically sensitive, so the sell-off was a now-or-never opportunity to buy on the share price falls in anticipation of recovery,' Smith adds. The recovery was swift and as a result, by the end of H120, PGIT's portfolio was more than 65% invested in renewable energy. At this point, Smith says, the board and Premier Miton felt it was appropriate to explore the adoption of a new name and investment policy to better reflect the evolution of the portfolio.

On 16 September 2020, the board of PGIT published a circular outlining the proposed change of investment remit, as well as a change of name to Premier Global Renewables Trust, stating that it believed the new investment strategy would 'build on the Company's current investments in the renewable energy sector, as well as its other related sustainable infrastructure investments, and will best secure the Company's future success by affording existing and potential new ordinary shareholders the opportunity to access attractive financial investments in the growing renewable energy market, which has significant investment capacity'. The proposal to change the investment policy was duly passed, with the name change taking place in mid-November, prior to the rollover of the ZDPs at the end of November (see Gearing section).

The fund manager: James Smith

The manager's view: Inflection point for renewable energy

Smith argues that there are two important points in favour of PMGR's shift to a focus on renewable energy: growth in electricity demand and falling production costs. He explains: 'Electrification is one of the major structural changes of our times – I can't think of a bigger change in the next 20 years – and PMGR offers a way to access that change on a global basis with reasonable valuations and yield and without excess technology or other risks.'

At present, electricity only makes up c 40% of 'final energy use' globally, with the majority of cars, heating and heavy industry all still predominantly supplied by fossil fuels. 'Electricity has huge scope to grow as we combat climate change, using it for a host of new things like transportation, or to power a heat pump rather than using a gas boiler,' says Smith. He adds that while it is not currently viable to use electricity to fuel a truck or a factory directly, the zero-carbon alternative to current fuels – green hydrogen – is produced through electrolysis, which itself requires electricity. 'There is huge growth potential as we move towards carbon neutrality over the next 40 years,' the manager comments.

Furthermore, because of such a large reduction in costs in the past four or five years, Smith says renewables have reached an inflection point where they are now at a competitive advantage to other forms of electricity generation. He gives the example of the UK wind sector, where offshore capacity is auctioned at government-backed guaranteed inflation-linked 15-year prices through contracts for difference (CfDs). 'In the first round of auctions in 2015 the average cost was £117/MWh, but most recently in 2019 it was £41, so you can see how the price has fallen,' says the manager. 'The UK baseload electricity price is currently above £50, so offshore wind is now below the market price, meaning that although the government has guaranteed the price risk, you could see a situation where the newer renewables companies are paying the government through the CfD mechanism rather than receiving a subsidy.' Smith argues that it should not come as a surprise that renewable energy is now cheaper than fossil fuel generation, given the fuel is free, unlike mining, transporting, loading, unloading and grinding coal. Moreover, he says, while it used to cost c £1.5m to build 1MW of onshore wind capacity, now it costs less than £1m, 'and that is with better turbines with higher load factors'.

From an investment perspective, the combination of low cost, high growth and supportive government policy (more so under President Biden in the US than under President Trump, although the growth in renewables during the Trump administration is testament to the power of the cost argument) means renewable energy 'is an area where you can generate fairly visible returns,' says Smith. 'With a long-term fixed-price contract, you can guarantee the price, lock in the maintenance contracts and have fixed-cost amortising debt – it is about fixing the costs and the price upfront, and the bit in the middle is your return,' he explains. Furthermore, there is no GDP risk to the producer – 'it is the buyer (whether government or corporate) that takes the risk,' the manager explains. He points out that renewable generation still grew in 2020 even though power demand fell and the oil price plummeted.

Given the non-discretionary nature of many forms of renewable energy generation – you cannot order the sun to shine, or switch off the wind – PMGR is also investing in the developing area of energy storage. 'Unlike the direct solar or wind power funds available to UK investors, we invest fully across the value chain: not just generation but energy efficiency companies, waste to energy, storage, biomass production and generation, and electricity transmission grids,' says Smith. He points out that for electric transmission utilities like National Grid, their whole business model is changing as a result of shifts in electricity use. 'They will be moving to a system of hundreds of smaller power stations that you can't just turn on and off, with far greater supply volatility,' the manager explains. While in the past the grid operators could predict when offices would need their lights on or when people might want a cup of tea in a TV advert break, 'you can't predict when a lot of people might need to charge their electric vehicles,' he says. 'It is far more complex and harder to manage than it used to be, and requires more investment – we like companies that are investing for the future, as over the long term it should lead to higher returns', concludes Smith.

Asset allocation

Current portfolio positioning

With the portfolio rotation from a broad global infrastructure mandate to a renewables strategy now all but complete, at 31 December 2020 there were 42 holdings in PMGR's portfolio, compared with 39 a year earlier. Although all but one of the top 10 positions at end-2020 was held in the portfolio a year earlier, the weightings have changed markedly (Exhibit 1). Concentration in the top 10 holdings was 49.4% of the total compared with 46.3% at end-December 2019.

Exhibit 1: Top 10 holdings (as at 31 December 2020)

Company	Sector	Geography	Portfolio weight %	
			31 December 2020	31 December 2019*
Atlantica Sustainable Infrastructure	Yieldcos & funds	Global	7.0	6.4
TransAlta Renewables	Yieldcos & funds	North America	6.3	2.9
China Everbright Intl.	Waste to energy	China	5.3	5.1
Drax Group	Biomass generation and production	United Kingdom	5.0	1.0
New Energy Solar	Yieldcos & funds	North America	4.5	N/A
China Suntien Green Energy	Renewable energy developers	China	4.4	1.4
Clearway Energy A Class	Yieldcos & funds	North America	4.3	2.7
SSE	Renewable focused utilities	United Kingdom	4.3	2.6
National Grid	Electricity networks	Global	4.2	3.2
Gresham House Energy Storage Fund plc	Energy storage	United Kingdom	4.1	0.8
Top 10 (% of holdings)			**49.4**	**46.3**

Source: Premier Miton Global Renewables Trust, Edison Investment Research. Note: *N/A where not in end-December 2019 portfolio.

In geographical terms (Exhibit 2, with the breakdown based on geography of operation rather than location of listing), North America makes up the largest exposure at c 26%, increasing somewhat over 12 months as a proportion of the total. Smith comments: 'We like the US, where most of the assets are quite new – the market has grown quickly in the past few years, and 20- to 25-year fixed price contracts with either utilities or high-credit corporates are the norm, so the sector there is characterised by very long-term visibility of cash flows and good growth.' The largest increase in exposure over 12 months has been in the UK, more than doubling from 9.2% to 20.5% as the manager took advantage of low prices for UK renewable stocks during the market lows of 2020. China is another major component of the portfolio, offering high growth at attractive valuations, although exposure has fallen year-on-year as the portfolio has transitioned. Smith notes that although China is the world's largest renewable energy market by some distance, renewables are still only c 7–8% of the electricity mix, 'so there is a lot of growth to come'. He adds: 'We invest in companies that are among the world's largest but may be unfamiliar to Western investors. China Longyuan Power is just one company, but in 2020 it should have generated over 40TWh from its wind farms. Putting this into context, the total generation of onshore wind farms in the UK was 32TWh in 2019, with another 32TWh coming from offshore wind farms.' Furthermore, although the operating environment in China is largely closed to foreign firms, Smith says that the Chinese operators are approachable and shareholder-friendly, with one of PMGR's largest Chinese holdings, China Suntien Green Energy, yielding more than 7%.

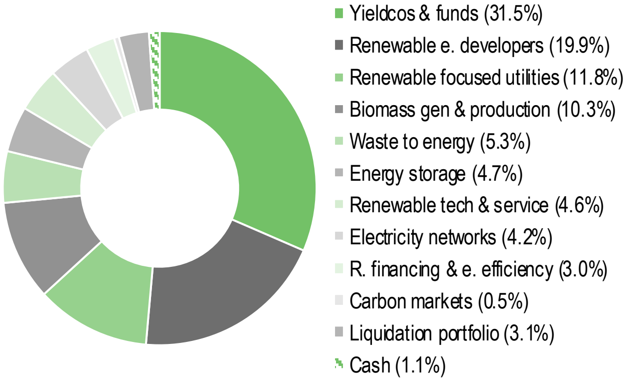
Exhibit 2: Portfolio geographic exposure at 31 December 2020 (% unless stated)

	Portfolio end-December 2020	Portfolio end-December 2019	Change (pp)
North America	25.9	22.7	3.2
UK	20.5	9.2	11.3
Global	17.4	17.7	(0.3)
Europe ex-UK	16.3	7.0	9.3
China	14.0	19.8	(5.8)
India	3.1	2.6	0.5
Latin America	1.7	7.3	(5.6)
Asia (ex-China)	0.0	6.4	(6.4)
Middle East & Africa	0.0	3.1	(3.1)
Eastern Europe	0.0	0.5	(0.5)
Cash	1.1	3.8	(2.7)
	100.0	**100.0**	

Source: Premier Miton Global Renewables Trust, Edison Investment Research

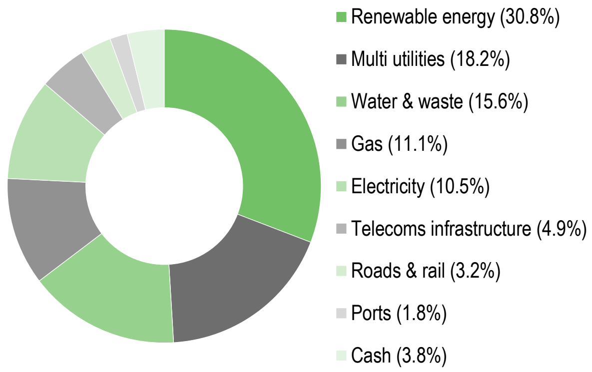
The manager says he would like to increase PMGR's emerging markets exposure if he can find the right stocks at reasonable valuations, arguing that the reduction in the cost of building renewable energy capacity should lead to greater development of the sector in lower-income countries. 'Ten years ago we were building renewables infrastructure in the UK because it was the right thing to do even though it was expensive,' says Smith. 'Emerging markets are less likely to do it unless it is cheap, and now it is cheap.' In addition to China, the portfolio has some exposure to Latin America. The 3.1% holding in India shown in Exhibit 2 is actually a coal-fired power generator, OPG Ventures, categorised in Exhibit 3 as the 'liquidation portfolio'. The manager explains that he has sold everything from the PGIT portfolio that did not fit the new mandate with the exception of this holding, which is currently trading substantially below its worth, 'so it would not be fair to shareholders to sell it now'. Given good recent results and the possibility that the company will reinstate its dividend, Smith expects a re-rating in the shares that would allow him to exit the position at a more favourable valuation.

Exhibit 3: Sector breakdown at 31 December 2020



Source: PMGR, Edison Investment Research

Exhibit 4: Sector breakdown at 31 December 2019



Source: PMGR, Edison Investment Research

As shown in Exhibits 3 and 4, the sector classification of PMGR's portfolio has been changed to fit the new mandate, with the renewable energy sector (30.8% of the portfolio at 31 December 2019) now split into a number of subsectors. These include 'yieldcos' – funds that own operational renewables assets and reward their investors largely through dividends rather than capital appreciation. Smith says that having around one-third of the portfolio in these companies (31.5% at end-December 2020) is prudent given PMGR's geared structure. 'This part of the portfolio is rock-solid, reliable and very highly contracted, with most of those contracts over 10–30 years – they are a bedrock we can rely on for yield and modest growth over time,' the manager explains. Four of PMGR's top 10 holdings at 31 December 2020 (Atlantica Sustainable Infrastructure, TransAlta Renewables, New Energy Solar and Clearway Energy), together making up over 22% of the portfolio, were in the yieldco category.

Selected stock examples

Smith highlights PMGR's largest holding, **Atlantica Sustainable Infrastructure**, currently a c 7% position. While most yieldcos focus on a single geography, Atlantica owns assets in North America and Europe as well as other locations such as South Africa, and also has a blend of different technologies including solar and wind power, with contracted revenues. The manager describes it as 'refreshingly dull' – its model is to own the assets and pay off the debt over time so earnings and cash flows increase and it can increase its dividends. He adds that it is 'still quite reasonably valued'. The sponsor of the fund is Algonquin Power & Utilities (also held in PMGR's portfolio), a Canadian utility company with a growing renewables business, of which Atlantica is a part. Algonquin itself is around a 3% holding in the fund.

While Atlantica is a long-term holding and has been in the portfolio for a number of years, a more recent purchase is **Pinnacle Renewable Energy**, now just outside PMGR's top 10 holdings. Canada-listed Pinnacle produces biomass woodchip pellets, which are a by-product of the forestry and construction materials industry and are certified as carbon neutral because trees consume carbon dioxide when they grow. Smith explains that coal-fired power stations can be converted to run on biomass pellets, or as a transitional measure, a proportion of biomass woodchips can be injected into the coal mix without any real boiler modification. As well as providing a large share of the biomass needs of the Drax power station (two-thirds of which has been converted from coal) in Yorkshire, Pinnacle also sees opportunities in Asia, particularly Japan, where the mountainous terrain and large population versus the size of the land mass presents problems for other forms of renewable energy generation such as solar power. The company sites its production facilities close to sawmills, and has long-term contracts with both its waste wood suppliers and its customers. By shipping from the West Coast of Canada (where two-thirds of its production is located), Smith says Pinnacle has 'a short hop to Asia', representing a competitive advantage over US producers shipping from Gulf Coast ports, and is building two new pellet plants to satisfy contracts from Japan and Korea starting as far out as 2024/25. While the firm's input costs are low as there is a surplus of forest products and biomass is a way to use the waste, the manager notes that biomass production is not simple in terms of the technology and engineering, relationships with sawmills, power companies and forestry companies, and that Pinnacle enjoys something of a natural monopoly: 'If you have a pellet plant sucking in all the waste wood from a 50-mile radius, it is not economic for a competitor to come in, as the cost of transporting wood is one of the key costs,' he says.

Performance: Change in strategy pays off for investors

Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	Blended benchmark* (%)	MSCI AC World (%)	CBOE UK All Cos (%)
31/01/17	48.0	46.2	22.0	33.7	20.9
31/01/18	(6.8)	(9.1)	1.9	13.4	11.3
31/01/19	(8.2)	(5.0)	12.7	0.6	(3.9)
31/01/20	18.6	15.3	18.9	16.4	10.5
31/01/21	42.8	31.8	(10.6)	12.9	(8.6)

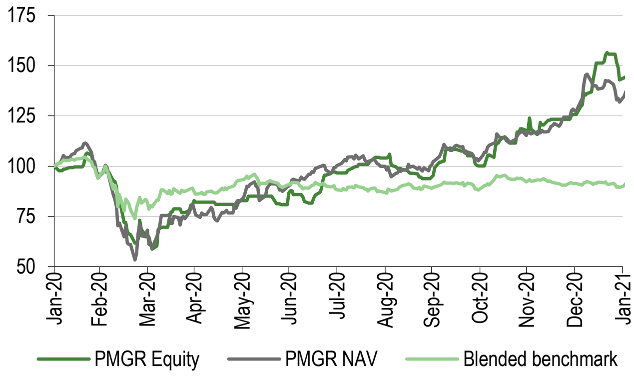
Source: Refinitiv. Note: All % on a total return basis in pounds sterling. *Blended benchmark is a broad global infrastructure index from 1 January 2018 and a broad global utilities index prior to that date.

PMGR's shift from a broad global infrastructure portfolio to a narrower focus on renewable energy stocks has paid off handsomely for investors over the past 12 months (Exhibits 5 and 6). The coronavirus-driven global equity market rout in Q120 saw the trust's net asset value (NAV) and share price fall by 53% and 43% respectively between late February and late March 2020, but the indiscriminate nature of the sell-off allowed Smith to accelerate the portfolio rotation into renewables names at very attractive valuations. While the bounce back in these stocks was not as swift as the initial decline, by October 2020 PMGR's NAV and share price had fully recovered to pre-pandemic levels, and the announcement of several successful COVID-19 vaccine trials in November helped the portfolio to post a c 30% gain in both NAV and share price total return terms for 2020 as a whole, compared with a c 6% decline in the broad global infrastructure benchmark. Looking ahead, it is worth noting that the lower level of total assets following the partial rollover of the 2020 ZDPs at the end of November (gearing is now c 45% compared with more than 100% for most of 2020) will reduce the beneficial effect of the gearing in a rising market, although it will also mean the portfolio is less over-exposed in a future sell-off.

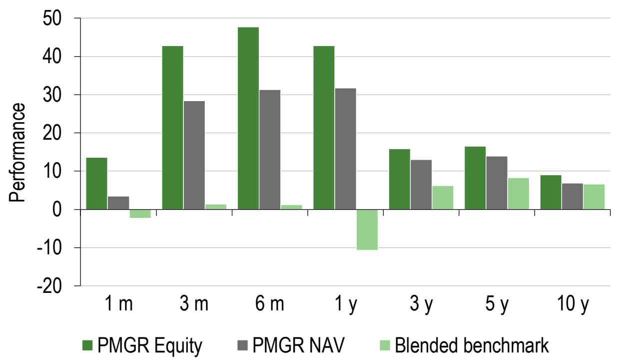
Given the shift in the investment strategy, PMGR's longer-term track record (shown in absolute terms in the right-hand chart of Exhibit 6 and in relative terms in Exhibit 7) is less relevant as it reflects a broader exposure to the infrastructure sector. NAV and share price total returns have averaged c 13–16% pa over both three and five years. Of note, the trust has markedly outperformed the broad UK stock market over all periods shown in Exhibit 7, illustrating the potential benefits of a globally diversified portfolio.

Exhibit 6: Investment trust performance to 31 January 2021

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. Blended benchmark is a broad global infrastructure index from 1 January 2018 and a broad global utilities index prior to that date.

As well as benefiting from gearing and the recovery in stocks bought during the sell-off, the trust also profited in H120 from short index futures. While investment in derivatives is not a large part of PMGR's investment strategy, Smith says that as a geared fund, sometimes a degree of hedging is appropriate in order to protect shareholders. The manager took the futures position in February 2020 and made a profit of £4.3m (equivalent to a c 7–8% return) in less than two months. However, revisiting this strategy during the second wave of the COVID-19 pandemic proved less successful, as there was no repeat of the Q120 market falls. The manager also uses currency hedging to limit the impact of FX moves, given the ZDPs are a sterling liability while the portfolio is invested globally.

Exhibit 7: 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 Blended benchmark	16.3	40.8	46.0	59.9	29.9	44.2	24.8
NAV relative to Blended benchmark	5.8	26.7	29.8	47.5	20.6	28.9	2.8
Price relative to MSCI AC World	14.7	29.5	31.6	26.5	17.7	7.0	(18.0)
NAV relative to MSCI AC World	4.4	16.5	17.0	16.7	9.2	(4.3)	(32.5)
Price relative to CBOE UK All Cos	14.8	22.5	32.2	56.3	60.3	64.3	38.8
NAV relative to CBOE UK All Cos	4.5	10.2	17.5	44.2	48.7	46.9	14.4

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

Exhibit 8: NAV performance versus benchmark over three years

Source: Refinitiv, Edison Investment Research. Note: Benchmark is a broad global infrastructure index.

Peer group comparison

PMGR is currently a constituent of the Association of Investment Companies' Sector Specialist: Infrastructure Securities sector. However, it is worth noting that this was its sector prior to the change in investment focus, and also that the peer group contains just one other fund, Ecofin

Global Utilities & Infrastructure, which has limited crossover with PMGR given it is currently only c 26% invested in renewable energy. For this reason, in Exhibit 9 we have also included funds from the Sector Specialist: Environmental peer group (although these tend to be more focused on the technology underlying sustainable solutions), as well as the Renewable Energy Infrastructure sector, whose constituents mainly invest directly in operating assets, and Utilico Emerging Markets, which focuses on utilities and infrastructure but is classified in the Global Emerging Markets sector. The lack of comparable peers only serves to underline the differentiation of PMGR's focus on listed renewable energy securities.

Exhibit 9: Selected peer group as at 4 February 2021*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (cum-fair)	Net gearing	Dividend yield
Premier Miton Glbl Renewables Trust	**33.5****	**38.0**	**61.7**	**114.0**	**106.8**	**1.7**	**No**	**(2.1)**	**144**	**5.5**
Impax Environmental Markets	1,279.9	36.6	67.7	180.1	244.8	1.0	No	7.8	101	1.0
Jupiter Green	57.2	28.5	42.3	103.9	158.8	1.6	No	7.4	100	0.9
Menhaden	80.6	10.0	56.4	73.0	--	2.0	Yes	(25.1)	100	0.3
Ecofin Global Utilities & Infra	187.6	10.3	61.2	--	--	1.5	No	(0.2)	113	3.5
Bluefield Solar Income Fund	544.4	3.2	25.2	54.0	--	1.1	No	21.1	100	7.0
Foresight Solar	613.8	(1.2)	9.9	32.4	--	1.1	No	9.6	100	5.5
Gore Street Energy Storage Fund	83.7	11.4	--	--	--	3.5	Yes	16.3	100	7.3
Greencoat UK Wind	2,144.1	4.8	28.5	52.0	--	1.0	No	18.7	126	6.0
Gresham House Energy Storage	395.6	5.7	--	--	--	2.2	No	14.6	100	6.3
JLEN Environmental Assets Group	628.7	0.1	16.8	38.3	--	1.3	No	21.8	100	7.1
NextEnergy Solar	606.7	(2.8)	13.3	35.7	--	1.2	No	5.7	100	7.1
Octopus Renewables Infrastructure	388.5	3.6	--	--	--	1.2	No	13.0	100	2.1
Renewables Infrastructure Grp	2,512.5	4.2	30.7	60.7	--	1.0	No	20.4	100	6.0
SDCL Energy Efficiency Income	560.3	9.9	--	--	--	1.2	No	5.8	100	5.2
Utilico Emerging Markets	444.0	(7.3)	(1.4)	44.9	77.7	1.1	Yes	(13.4)	110	3.5
Simple average (16 funds)	**674.5**	**10.8**	**37.6**	**74.4**	**170.1**	**1.5**		**9.0**	**106**	**4.7**
PMGR rank in peer group	**16**	**1**	**2**	**2**	**3**	**4**		**14**	**1**	**8**

Source: Morningstar, Edison Investment Research. Note: *Performance as at 3 February 2021 based on ex-par NAV. **Ordinary shares only. TR = total return. TER = total expense ratio. Net gearing is total assets less cash and equivalents as a percentage of net assets, and in the case of funds investing directly in operating assets, does not include gearing at the underlying asset level.

PMGR has the lowest market capitalisation in the selected group, although it should be noted that this excludes the ZDPs. It has one of the longest track records, with most of the direct renewables funds having been launched within the last decade. In performance terms, PMGR has produced the best 12-month NAV total return of the 16 funds with a one-year track record, some 27.2pp above the peer group average. This period largely reflects its increased focus on renewable energy, prior to the new mandate being officially adopted in November 2020. It ranks second out of 12 funds over three years and second out of 11 over five years, although it has the second lowest return of the four funds with a 10-year record. The longer-term numbers were negatively affected by a poor year for the trust in 2011 under a previous manager, so are therefore of limited relevance in assessing Smith's tenure, which began in 2012. Ongoing charges are a little above average, but there is no performance fee. In spite of PMGR's above-average short- and medium-term performance record, until recent weeks it was trading at an appreciable discount to NAV. Even after a substantial re-rating, only two funds currently trade at a wider discount, while many of the direct renewables funds stand at double-digit premiums. Gearing is substantially the highest in the group as a result of the trust's capital structure, while the 5.5% dividend yield is 0.8pp above the mean but in line with the median for the group, ranking eighth of 16 funds.

Dividends: Underlying income proves resilient in 2020

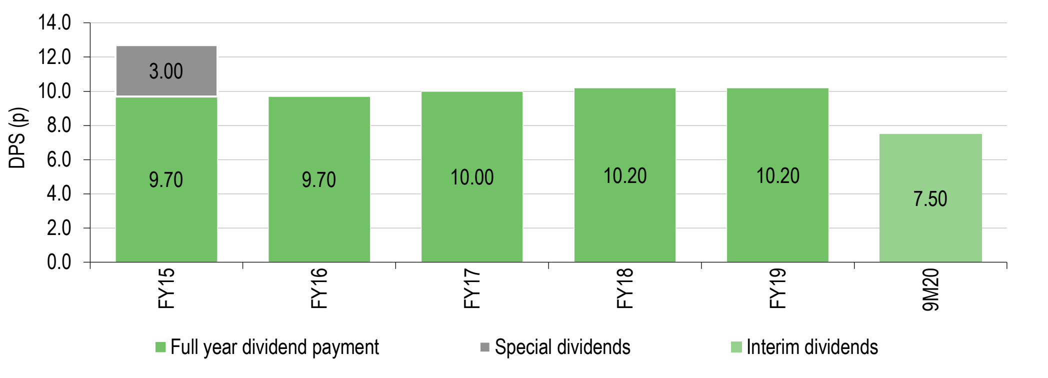
Although it also aims for long-term growth of capital, PMGR's primary objective is to reward its investors with a high income. PMGR has maintained or increased its regular dividend in all but one year (FY15) since 2004, producing compound annual growth of 2.8% pa over the period. The trust has paid regular quarterly dividends throughout its life at Premier; until end-FY17 the fourth quarterly dividend tended to be substantially larger than the others, but since then payments been more evenly spread through the year. Between 2013 and 2015 it also paid additional dividends of 0.75p per quarter, aimed at distributing the built-up revenue reserve in advance of the trust's expected wind-up at the end of FY15 (shareholders instead agreed to extend the life of the trust, subject to five-yearly continuation votes).

As shown in Exhibit 10, the total regular dividend has hovered around 10p per share for each of the last five financial years, fully covered by income of c 10.5–11.5p per share in each year except FY15, when there was a marginal shortfall in the net revenue return per share (9.38p) versus regular dividends of 9.70p. So far in respect of FY20, three quarterly dividends of 2.5p have been paid. The first two were fully covered by H120 net revenue per share of 5.6p, although this was 9.8% lower than in H119. In the H120 report, PMGR's chairman pointed out the robustness of renewable energy companies' revenues in an environment of widespread COVID-19 driven dividend cuts, and explained that the dip in income versus H119 was more to do with a shift in the timing of dividend receipts from the first to the second half of the year than any actual decline in expected revenues from investments.

What will have an impact on PMGR's income going forward is the lower level of total assets following the redemption of the 2020 ZDPs and the smaller 2025 ZDP issue. With £30.2m of 2020 ZDPs versus £14.2m of 2025 ZDPs (with the assets accounted for by the ordinary shares remaining unchanged), total assets have fallen by c 27%, which could presage a similar reduction in investment income. We calculate that a 27% reduction in FY19 income would have reduced the net revenue return per share to 6.68p from 10.81p. While the expected c 3.4p per share reduction in finance costs for the smaller issue of ZDPs (see Capital structure section) would largely offset this difference in total return terms, we note that finance costs are charged to the capital rather than the revenue account. At end-H120, PMGR had revenue reserves equivalent to 8.3p per ordinary share (reducing to 6.8p if the second quarterly dividend is deducted), or 0.8x the FY19 total dividend. The trust also had special distributable reserves equivalent to 41.3p per share at end-H120. We expect PMGR's board to clarify any revision to the dividend level over the next few months.

Based on the current share price and the last four dividends, PMGR currently yields 5.5%.

Exhibit 10: Dividend history since FY15



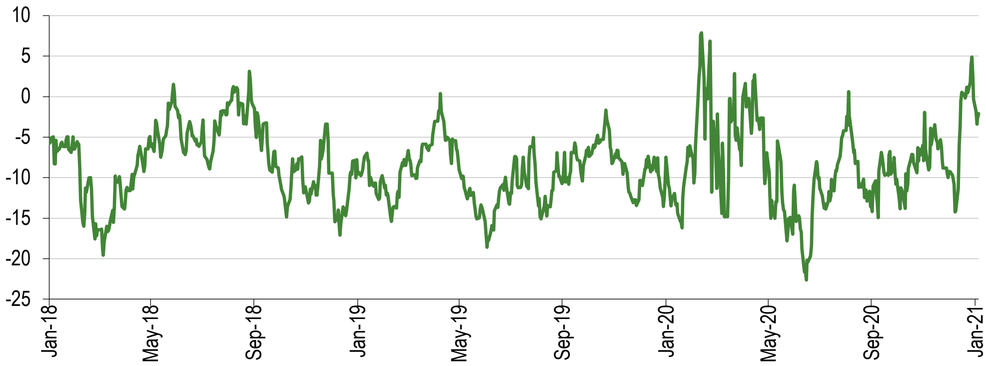
Source: Bloomberg, Edison Investment Research

Discount: Scope for a less bumpy ride

At 4 February 2021, PMGR's shares traded at a 1.8% discount to cum-income NAV, following a sharp re-rating in the share price during the second half of January that saw it reach a c 5% premium. This is a pronounced difference from the average discounts over one, three, five and 10 years, which sit in a very narrow range of 8.2% to 8.8%. As can be seen in Exhibit 11, despite the remarkable consistency of the short- and longer-term averages, PMGR's discount has actually been quite volatile, frequently ranging from around par to a c 15% discount. In common with most investment trusts, volatility in PMGR's discount ticked up in 2020 as investors grappled with the impacts of the COVID-19 pandemic, with the rating swinging from a decade-high premium to NAV of 7.9% in mid-March to a five-year widest discount of 22.6% in mid-July. After the summer the trust's shares had broadly settled back into their medium-term 0–15% range of discounts, but the granting of the London Stock Exchange Green Economy Mark on 12 January seems to have sparked a surge in buying interest, with average daily trading volume of 70,235 shares between 13 January and 4 February compared with c 31,500 for the preceding 12 months. While this pick-up will not necessarily continue at the same pace, we believe there is scope for PMGR's rating to stabilise at a level well above its long-term c 8-9% average discount, given the resilience of its revenue streams, high yield, strong recent capital performance and more focused and differentiated investment approach.

No shares have been issued or bought back in the past five years. However, at the start of February, the trust secured a block listing facility for 1,808,800 shares (10% of the share capital), which would allow it to issue new shares to meet market demand.

Exhibit 11: Premium/discount over three years (NAV including income)



Source: Refinitiv, Edison Investment Research

Fund profile: Differentiated renewables strategy

Premier Miton Global Renewables Trust has been part of the Premier (now Premier Miton) stable since the 2003 rollover of the Legg Mason International Utilities Trust. Initially known as Premier Utilities Trust, it changed its name to Premier Energy & Water Trust (PEWT) in 2008 and subsequently to Premier Global Infrastructure Trust (PGIT) in late 2017. PGIT's mandate built on that of PEWT, investing in equity and equity-related securities of companies operating in the energy and water sectors generally, as well as other generic infrastructure investments. In September 2020, reflecting a gradual change in focus towards the renewable energy segment of the infrastructure universe, PGIT published proposals to change its name to Premier Miton Global Renewables Trust (PMGR) and its investment remit to a more targeted investment proposition dedicated to renewable energy and sustainable infrastructure investments. The trust has been managed since 2012 by James Smith.

PMGR sits in the AIC's Sector Specialist: Infrastructure Securities sector, a peer group for funds that invest in infrastructure shares. While this may be a less appropriate sector for PMGR than for PGIT, there is currently no peer group for funds investing in renewable energy shares, underlining the differentiation of the trust's new approach. There is also no readily available equity index against which to measure performance, so PMGR is continuing to use PGIT's performance benchmark since the start of 2018, a broad global index of infrastructure shares.

The trust's official investment objective is to achieve a high income and to realise long-term growth in the capital value of its portfolio. PMGR pays dividends quarterly. The trust is geared (net gearing of 44% at end-December 2020) via ZDPs (see the Gearing section).

Investment process: Diversified global equity exposure

PMGR's investment policy is that, in normal market conditions, its portfolio should consist primarily of a diversified portfolio of equity and equity-related securities of companies operating in the renewable energy sector, as well as other sustainable infrastructure investments. In constructing the portfolio, Smith aims to find individual assets or companies offering capital appreciation, income or a combination of the two, with a range of higher- or lower-risk profiles, in order to achieve a balance of risk and return and yield and growth to fulfil the trust's total return mandate. The manager seeks global exposure but constructs the portfolio without reference to any global indices, which tend to be heavily US-focused.

Smith describes the investment process as 'very bottom-up'. In normal circumstances he travels extensively to meet companies and visit projects, although during the COVID-19 pandemic these meetings have largely moved online. As a chartered accountant by training, the manager makes a thorough analysis of the financial statements of potential investee companies, as well as assessing a range of valuation metrics including EV/EBITDA, price/book, P/E and dividend yield, and particularly return on equity and net debt to EBITDA. The manager observes that given equity investors' focus on growth rather than value in recent years 'in some ways the valuation discipline has counted against me', noting that Tesla's share price has gone up sixfold in the past year from a level at which he already considered the company overvalued. 'Looking for value is not always the best way to returns, but as a yield-conscious investor the only way you can do it is by buying companies that are sensibly valued,' Smith says.

Historically the majority of the trust's returns have come from yield, but Smith is keen to stress the importance of a mix of companies to achieve a balance of growth and income. He considers each potential investment within the context of its own sector, for example comparing US with UK renewables funds whose returns are primarily in the form of income ('yieldcos'), or assessing renewable technology companies against each other. The manager says it is important to compare like with like given the different risk and return profiles of each type of company. Many yieldcos use their own metrics such as cash available for distribution (CAFD), which are not applicable to other types of company. Meanwhile, renewable technology companies may offer higher capital growth potential alongside greater potential risks. Below we look briefly at how a renewable energy investment moves through the value chain, changing its risk/reward profile over time.

The lifecycle of a renewable energy generation investment

Smith explains that most projects are initiated by renewable energy developers, such as RWE in Germany and Ørsted in Denmark. They source the land (if applicable), secure planning permission, conduct site surveys and construct the assets. This can be a high-risk process given the number of variables. The manager says: 'The first risk is that the projects are modelled on paper. A wind farm developer will put up a mast to assess wind speed and variability, then go to a turbine manufacturer who will say 'Our X turbine will give you Y MWh and cost Z'; the developer then has to decide if it is economically viable and will go on from there. Planning permission may be rejected or build costs may be more than expected – all sorts of things can go wrong.' However, if successful, it is at the development stage where most of the project's value is created. Smith points out that developers typically offer low dividend yields as they are retaining the majority of their cash to build assets, and when the project is up and running and essentially de-risked, they may either keep it or sell a portion to a yieldco. An example is SSE's recent sale of its stake in the Walney Island offshore wind farm to Greencoat UK Wind. 'All the yieldco wants to do is own the asset and get a return from that,' says the manager. 'Typically a developer is higher risk/return and more skewed to growth rather than income as it retains more cash.' He adds that PMGR's stocks cover the spectrum of risk and reward, from yieldcos (low risk/low return) to developers (higher risk/higher return): 'We want a sustainable yield over time along with capital growth potential.'

Exhibit 12: PMGR's portfolio construction parameters

Parameters	Restrictions (% of gross assets)
Geographical distribution	No restrictions*
Asset class	No restrictions*
Single stock	Maximum 15% in securities from a single issuer at time of acquisition
Listed closed-ended investment companies	Maximum 15% in investment companies provided they invest in renewable energy and other sustainable infrastructure. Maximum 10% in UK-listed closed-ended funds that do not themselves have a 15% limit on other investment company holdings.
Unlisted investment companies	Maximum 20% at time of acquisition in unlisted open-ended or closed-ended investment companies.
Unquoted securities	Maximum 15%
Physical commodities	Not permitted
Cross-financing between portfolio companies	Not permitted
Significant trading activity	Not permitted
Solvency risk	Maximum 20% exposure to the creditworthiness or solvency of any one counterparty (including its subsidiaries or affiliates)

Source: Premier Miton Global Renewables Trust, Edison Investment Research. Note: *PMGR's board monitors sector and geographical exposures to ensure an appropriate spread of risk is maintained.

Holding periods for portfolio companies have historically typically averaged around three years, although the level of turnover will be markedly higher for FY20 because of the change in investment policy. Smith says exits are usually on valuation grounds, with profits reinvested in smaller or earlier-stage companies that are less well understood by the market. However, positions may also be sold if a company has gone ex-growth, there is a change in management, or the investment or project has not progressed as expected.

PMGR's approach to ESG

Premier Miton has a dedicated head of environmental, social and governance (ESG), who monitors and scores all the company's portfolios from an ESG perspective. Smith points out that PMGR's renewable energy focus is a de facto tick in the environmental box. Governance has always been a strong focus, as poorly governed companies do not tend to make good investments. Furthermore, the manager notes that emerging market renewables companies in particular tend to have a good record on social factors through supporting the local economy, although this can go unnoticed by international investors as these firms may be below the radar of ESG rating agencies.

PMGR has recently been granted the London Stock Exchange Green Economy Mark, awarded to companies and investment funds that are driving the global green economy.

Gearing: Structurally geared through ZDPs

From its introduction to the Premier stable in 2003, and even beforehand as the Legg Mason International Utilities Trust, PMGR has always been structurally geared through ZDPs rather than debt. This has the advantage of eliminating annual interest coupons, with the redemption value of the ZDPs instead hopefully being covered by the trust's higher investment returns (as a result of the gearing effect) over the life of the ZDP issue, although it also carries the potential risk of being highly geared in a falling market. Historically (looking back between FY19 and FY15), the level of gearing supplied by the ZDPs has been more than 100% (that is, the share of total assets accounted for by the ZDPs has been more than that accounted for by the ordinary shares). However, the 2025 ZDP issue is smaller, with holders of only 8.6m of the 24.1m 2020 ZDP shares choosing to roll over into the new issue, resulting in demand for 10.9m shares (£10.9m) of the new ZDPs, along with a placing of 3.3m ZDPs to new investors, making a total of £14.2m of 2025 ZDP shares at the issue price of 100p – equivalent to c 50% gearing – at the 2025 ZDP issue date of end-November 2020. The 2025 ZDPs have a slightly higher gross redemption yield of 5% versus 4.75% for the 2020 ZDPs. While the smaller pool of total assets (c £43m at the date of rollover versus c £59m prior to the repayment of the 2020 ZDPs) is likely to reduce portfolio income over the life of the 2025 ZDPs (see Dividends section), the c 3.4p per ordinary share annual reduction in financing costs as a result of the smaller pool of ZDPs may partly or completely offset this. The board points out that the smaller size of the 2025 ZDP issue will also result in an increased level of cover for the ZDPs, improving the risk profile for both classes of share.

Fees and charges

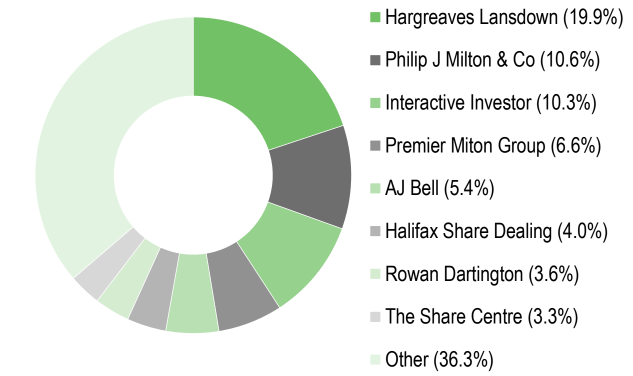
Premier Portfolio Managers (PPM), a division of Premier Miton Investors, acts as PMGR's alternative investment fund manager (AIFM) under the AIFM Directive, and is paid a monthly management fee equivalent to 0.0625% of gross assets (plus any applicable VAT), charged 40% to revenue and 60% to capital. This is effectively an annual rate of 0.75%. PPM also receives a fixed fee of £20,000 pa for acting as AIFM. No performance fee is payable by the trust. Previously there was a performance fee arrangement, but this was terminated with effect from the start of FY18, at the same time as the annual management fee was reduced from 1.0% pa to its current level. Ongoing charges on an annualised basis were 1.72% as at end-H120 (30 June), a marginal increase from 1.66% for FY19.

Capital structure, life of the company and ownership

Structured as an investment trust, PMGR has two classes of share: ordinary shares and ZDPs. There are 18.1m ordinary shares in issue. The trust has used ZDPs throughout its existence. The current tranche of 14.2m ZDPs was issued in November 2020 at 100p, with a maturity value of 127.61p at 28 November 2025, equating to a gross redemption yield of 5.0%. The ZDPs had a hurdle rate of -16.2% at 31 December 2020, meaning PMGR's total assets would have to fall by more than 16% a year over the life of the ZDPs for the redemption price not to be met in full.

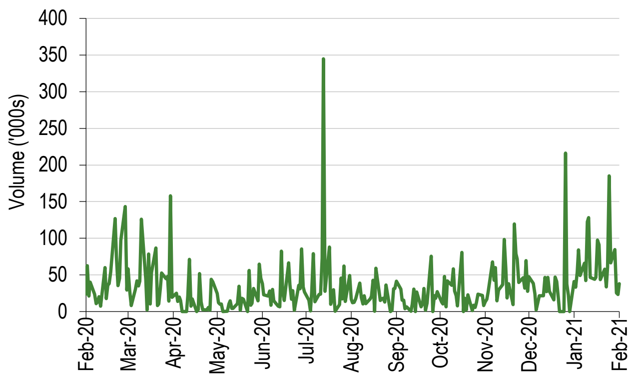
PMGR has an indefinite life, although in August 2014 shareholders approved a proposal for a five-yearly continuation vote, the first of which took place at the FY19 AGM in March 2020. More than 99% of votes cast were in favour of continuation, which secures PMGR's future as an investment trust until at least 2025.

Exhibit 13: Major shareholders (ordinary shares)



Source: Premier Miton, as at 31 December 2020.

Exhibit 14: Average daily volume (ordinary shares)



Source: Refinitiv. Note: 12 months to 4 February 2021.

As shown in Exhibit 13, PMGR's ordinary shares are widely held by retail investors on platforms such as Hargreaves Lansdown, Interactive Investor and AJ Bell. Average daily trading volume on the London Stock Exchange over the past 12 months (Exhibit 14) was c 35,900 ordinary shares, or c 0.2% of the share base.

The board

Exhibit 15: PMGR's board of directors

Board member	Date of appointment	Remuneration in FY19	Shareholdings at end-FY20
Gillian Nott OBE (chairman)	1 March 2016*	£26,000	15,000
Melville Trimble (audit committee chair)	25 April 2019	£13,642**	N/A
Victoria Muir (remuneration committee chair)	14 March 2018	£18,000	5,641 (+3,141 in FY20)

Source: Premier Miton Global Renewables Trust. Note: *Chairman since July 2018. **£18,000 pro rata.