



TRIG - Renewables Infrastructure Group



TRIG’s underlying fundamentals don’t warrant the discount...

Update

03 December 2024

Overview

The Renewables Infrastructure Group (TRIG) has a portfolio of institutional quality assets of significant size and scale, diversified geographically in Europe and by technology. The acquisition of Fig Power (in addition to the company’s 1GW development pipeline) earlier this year means a potentially transformational investment in battery storage over time, which further diversifies revenue streams, as well as being a potentially high-returning investment in its own right (see [Portfolio section](#)).

TRIG’s diversified portfolio, allied to the fact that 67% of projected portfolio revenues over the next ten years have a fixed price per MWh generated, gives it financial resilience. A key determinant of TRIG’s returns is operational: the portfolio’s ability to generate electricity. With lower wind resource across Europe, which has affected the whole sector, but compounded by specific faults at two of TRIG’s larger assets in the UK, 2024 has been a difficult year. A result is that short-term gearing is expected to be slightly higher than projected in the 2024 interim results (see [Gearing](#)), and expectations that dividend cover will reduce (see [Dividend](#)). The managers expect that cover will return to the long-term average of 1.2x to 1.3x from 2025.

TRIG has faced operational challenges this year. At the same time, the discount has widened dramatically – a result of rises in interest rates and lower power prices. The ability of the portfolio to continue to deliver attractive returns has not fundamentally changed, and the dividend remains cash covered. Surplus cash flows, as well as refinancing activity expected in the future, will give TRIG firepower to optimise capital allocation, which may include accretive buybacks, further debt repayment or reinvestment in new assets as well as enhance existing projects.

Analyst’s View

At times the underlying fundamentals of listed companies can differ, sometimes markedly, with share price performance. In TRIG’s case, we think this is one of those times. As we discuss in the [Discount section](#), TRIG (as well as the entire peer group) has seen the share price fall, even though the underlying performance does not suggest anything other than a slight softening of revenues this year. Certainly, with interest rates having risen, the relative attractions of TRIG’s offering may have taken a hit over the short term. However, we note that TRIG’s managers have given a clear expectation that whilst dividend cover this year will be lower than budgeted, they expect cover to rebound next year (see [Dividend section](#)).

Short term, the board is prioritising paying down floating-rate debt and share buybacks, which we think will be highly accretive at the current discount to NAV (see [Discount section](#)). Unlike fixed income, TRIG’s portfolio stands to benefit from any persistent inflation. Added to which, TRIG’s managers have the potential to increase returns through their capital allocation decisions, including the potential to further diversify through the 1GW development pipeline. Disposal activity, which has perhaps been slower than hoped, has so far been achieved at valuations in excess of book value, boosting NAV but also providing evidence that TRIG’s NAV may be conservative.

For long-term investors, TRIG’s cautious approach to portfolio construction, seeking to minimise specific risks, its inherent link to inflation and the portfolio discount rate (before fees) of 8.3% might be considered an attractive risk-adjusted return. Any narrowing of the discount would serve as an accelerant to shareholder returns, over and above the NAV returns generated.

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BULL

A high yield of 8.2% from a cash-covered dividend, with the potential for NAV growth

High quality diversified portfolio, bolstered by 1GW development pipeline, which is uncorrelated to equity markets, and scores well on ESG matters

Discount may provide an accelerant to NAV returns, if appetites return to the sector

BEAR

Discount to NAV may persist for some time

Dividend cover not as high as that of funds that are not amortising, i.e. paying down debt

Macro uncertainty (e.g. lower power price forecasts and high interest rates) have provided a headwind to the NAV, and may persist



Portfolio

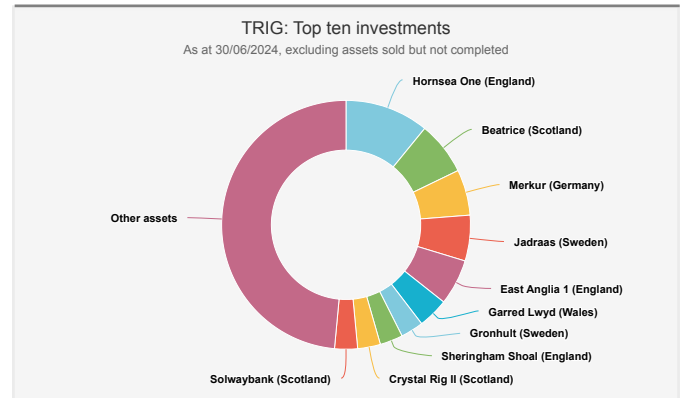
TRIG has the largest portfolio of renewable energy assets of the London-listed renewable energy infrastructure peer group. These are institutional quality assets of significant size and scale, diversified geographically in Europe but also diversified by technology. Indeed, with the acquisition of Fig Power earlier this year, TRIG’s strategic direction now includes a potentially transformational investment in battery storage, which further diversifies revenue streams, as well as being a potentially high-returning investment in its own right (see further below). TRIG’s strategy of diversification is purposeful, aiming to build in resilience to the portfolio’s underlying energy generation and cash flows. TRIG’s two-manager set-up also seeks to contribute to this resilience. As we discuss in the **Management section**, TRIG is unique amongst its peers in having two specialist managers behind it. InfraRed Capital Partners (who also manage HICL Infrastructure) are responsible for portfolio-level activity and financials, whilst RES is responsible for asset-level activities, including optimising the energy generated from its assets.

One of the notable features of wholesale electricity markets this year has been a continued normalisation of prices since the spike caused by Russia’s invasion of Ukraine. Energy prices remain elevated, but so far this year have (in the UK) settled on average around the £70 MWh level at which the UK government’s windfall tax applies (which expires at the end of 2025). This is below the level previously expected by forecasters this year, which has meant that TRIG, and peers, have seen modest falls in NAVs as realised electricity prices have not met short-term expectations. Additionally, one of the independent consultants who provide long term power price expectations (BNEF) has recently lowered their expectations for long term baseload power prices. In this context, it is worth noting that TRIG’s resilience in the face of declining wholesale energy prices is bolstered by the fact that c. 67% of projected total portfolio revenues over the next ten years have a fixed price per MWh generated, and over the same period 57% of projected total portfolio revenues are directly linked to inflation. As we discuss in the **Gearing section**, interest rate moves also have a limited impact, given the majority of TRIG’s debt is fixed rate.

Aside from the financial resilience of the portfolio, a key determinant of TRIG’s returns is operational: the portfolio’s ability to generate electricity. In this regard, 2024 has been a difficult year, with lower wind resource across Europe, which has affected the whole sector, but compounded by specific faults at two of TRIG’s larger assets in the UK, where cable faults have impeded generation. Distributions from the Hornsea One and East Anglia One projects remain impacted by cable outages that occurred earlier in the year, with both projects expected to recommence distributions at normalised levels during the course of 2025. Notwithstanding these specific issues with two of its

top ten assets, the chart below shows TRIG has relatively low reliance on single assets, with its top ten representing around half of the portfolio. By comparison, Greencoat UK Wind (UKW), which is TRIG’s closest peer, has 67.6% of the portfolio represented by the top ten assets.

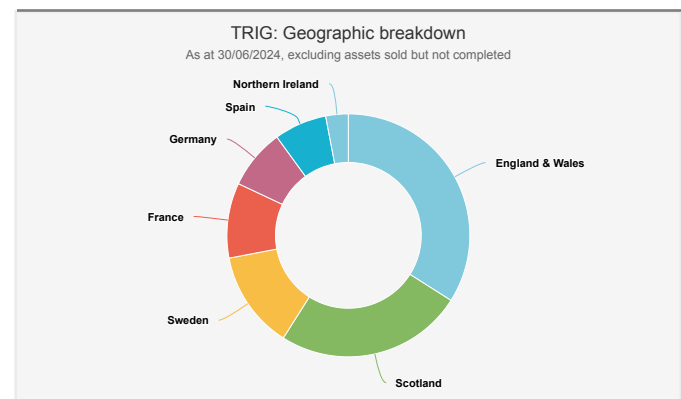
Fig.1: Portfolio Concentration



Source: The Renewables Infrastructure Group

TRIG’s Q3 NAV update highlighted that the problems with Hornsea One and East Anglia One have been compounded by issues elsewhere in the portfolio. Grid outages in Sweden, and delays in enhancement projects in France, where older wind turbines are being upgraded to extend lives and increase power generation, have created a ‘perfect storm’ in terms of lower generation and therefore cash flow YTD, with the most recent guidance for dividend cover at below the previously expected 1.1x level (see **Dividend section**). It is worth noting that over Q3 2024, the UK portfolio of assets performed ahead of budget and ahead of some peers, which in our view reinforces the attractions of geographic diversification, which reduces the impact of challenges at any one asset or in one technology. We note that TRIG remains primarily exposed to wind, which represents 82% of the portfolio by value, with solar 13% and ‘flexible capacity’ (batteries) at 5%.

Fig.2: Portfolio Breakdown



Source: The Renewables Infrastructure Group



TRIG has had one 20MW battery investment, which it acquired in 2017, but in 2022 bought three development-stage battery projects. The first of these to be commissioned, the 78MW Ryton battery storage project, is due to come on-line in H1 2025. These assets, as well as the investment pipeline that TRIG has with the acquisition of Fig Power, means that TRIG has a real opportunity to enhance diversification and earnings by building out a bigger portfolio of battery projects. Battery assets in the UK have experienced a challenging structural backdrop for revenues thanks to grid issues, which have seen them being ‘skipped’ when the grid needs power, calling instead for gas-fired electricity. TRIG believes that changes to the way that National Grid run the system means they can be more optimistic on revenues in the future, and so they see the prospect of these assets achieving strong returns in the future. At the same time, they complement a portfolio of renewable energy assets, because the best periods for battery assets are when there is a lot of volatility in wholesale energy prices, such as bright, sunny days in the summer. During the summer, solar installations are generating their highest output, which drives the marginal price lower. This means that batteries can charge cheaply, and then discharge at much higher prices as the day comes to an end, and power prices inevitably rise. In other words, they complement the cash flows from wind and solar assets well, meaning an enhanced revenue stream from the portfolio as a whole. TRIG’s pipeline of battery assets is a clear differentiator to peers, although clearly the board will be weighing deploying capital into battery assets against alternative uses of capital, including share buybacks.

Short-term headwinds aside, TRIG is well placed to continue to deliver for shareholders into the future. The current portfolio generated 2.9TWh of clean energy during H1 2024, which compares to a similar level in the previous year, effectively powering 1.8m homes. The average portfolio life is estimated at 31 years from the date of commissioning, and despite the discount to NAV meaning equity capital markets remain effectively closed for TRIG, the managers continue to optimise the portfolio. For example, £41m of investment activities were funded in H1, including development and construction spend. The team also continue to enhance the operational ability of the portfolio to convert wind energy to electricity, improving the generation output of TRIG’s existing portfolio. Aerodynamic improvement installations, for example, have been steadily built out, which over time the team hope will add between 1% and 5% to the energy derived from the assets.

In total, TRIG has c. 1GW of potential development opportunities within the portfolio that could enter construction by 2030. As at 30/06/2024 the company had outstanding investment commitments of £102m. We understand that, as the development pipeline is

progressed, it will continue to be appraised against alternative uses of capital. Projects built from TRIG’s development pipeline are expected to be self-funded through retained cash in excess of the dividend, proceeds from portfolio rotation or debt capacity as existing portfolio-level debt amortises. We understand that the fixing of merchant revenues through PPAs or other medium-term fixes could create further debt capacity within the portfolio, meaning that TRIG’s managers have plenty of options to continue to optimise the portfolio and its cash flows to deliver the most attractive total returns for shareholders.

Gearing

Gearing is employed by TRIG in two ways. Firstly, TRIG’s assets are typically bought with project-level debt, which is usually fixed rate and repaid formulaically over the life of the project subsidy. This can be thought of as structural gearing. TRIG’s structural debt has been progressively reducing over time, funded from cash flows from its investments. As at 30/06/2024, project-level gearing amounted to 37% of portfolio value, and on current projections is expected to reduce to 23% by 2030, potentially providing capacity to regear to fund future investment activities. There remains limited interest rate and refinancing risk with this structural gearing, and the average cost of TRIG’s structural debt remains around 3.6%, not having changed since interest rates have risen.

TRIG also has short-term, flexible borrowings through a revolving credit facility (RCF). The RCF has typically been used to acquire assets before raising equity capital to repay this debt. With equity fundraising off the table, given TRIG’s discount to NAV, and the RCF’s interest cost having risen with interest rates, TRIG has announced it will sell assets as well as use organic cash flows to reduce the RCF to about £100m by the end of 2025. Portfolio sales have been progressing, with four disposals agreed from the portfolio during H1 2024 for a combined consideration of £189m and representing an average premium of 10% over carrying value. Other than helping to reduce relatively costly debt, these sales should be welcomed by shareholders as reassurance on the valuations that make up TRIG’s NAV.

On the other hand, the operational issues over Q3 2024 that we highlight in the **Portfolio section** mean that the RCF is expected to be slightly higher than projected in the 2024 interim results, a result of the lower operational cash flows than expected at the time. TRIG has announced that the RCF is expected to be c. £230m once proceeds from the partial sale of the stake in the Gode offshore wind farm have been received (expected in Q4 2024). We understand that TRIG’s managers are progressing further disposals as well as portfolio-level financing opportunities, with



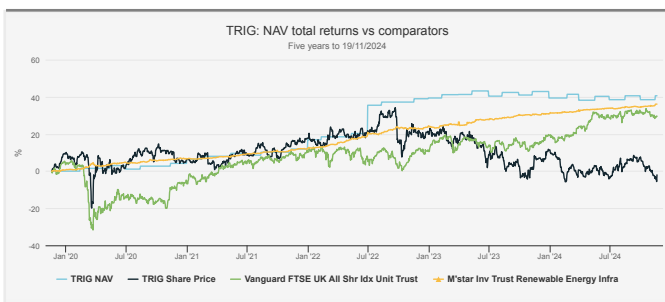
proceeds used to reduce the RCF yet further. The board and manager continue to evaluate repaying debt against alternative uses of capital, including buybacks.

Performance

At times the underlying performance of listed companies can differ, sometimes markedly, with share price performance. In TRIG’s case, we think this is one of those times. As we discuss in the **Discount section**, TRIG (as well as the entire peer group) has seen the share price fall, even though the underlying performance does not suggest anything other than a slight softening of revenues this year. We note that TRIG’s managers have given a clear expectation that whilst dividend cover this year will be lower than budgeted, they expect cover to rebound next year (see **Dividend section**). Certainly, with interest rates having risen, the relative attractions of TRIG’s offering may have taken a hit over the short term. For long-term investors, with TRIG’s cautious approach to portfolio construction, seeking to minimise specific risks, its inherent link to inflation and the portfolio discount rate (before fees) of 8.3%, this might be considered an attractive risk-adjusted return.

In the graph below, we show the five-year performance of TRIG against comparators. In our view, this serves to highlight the disconnect between the NAV and the share price, but also the NAV outperformance of the peer group, which we attribute to the higher quality assets TRIG owns and its exposure to wind, which offers the potential for higher returns than solar. Since IPO, TRIG has delivered an annualised total return on a share price basis of 6.2% p.a. (to 30/06/2024), representing a strong return in absolute terms, but also relative to the FTSE All-Share Index over the same period. As a result of near-term challenges, including power prices falling, 2023 and 2024 so far has seen a moderation in TRIG’s upward progress for the NAV. As we discuss in the **Portfolio section**, 2024 has also been impacted by one-off operational issues, which has resulted in lower cash flows received, and we would expect the performance of the portfolio to improve next year.

Fig.3: Five-Year Total Return Performance



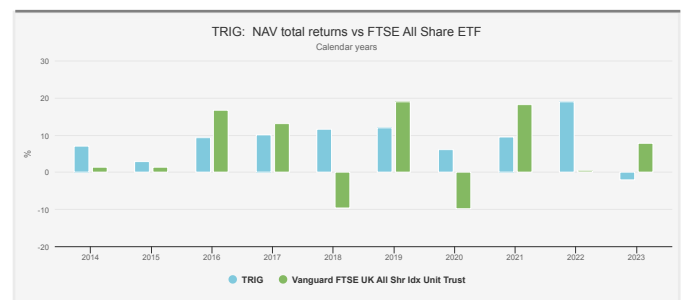
Source: Morningstar

Past performance is not a reliable indicator of future results.

In our view, the operational performance of TRIG’s portfolio does not justify the share price fall. Looking forward, there are reasons one might be optimistic. Savings rates at banks are gradually declining, and whilst bonds benefit if interest rates fall, they will also suffer from any resurgence in inflation, which eats away at nominal returns. In contrast, TRIG offers a prospective real return, given that over the next ten years 57% of projected portfolio revenues are directly linked to inflation. TRIG’s portfolio therefore stands to benefit from any persistence in inflation over the long term, and in the immediate term if inflation exceeds the current forecasts, which are relatively low – see sensitivity analysis further below. Unlike with fixed income, TRIG’s managers have the potential to increase returns through optimising capital allocation. The immediate focus for the board is repaying the revolving credit facility, which will help improve dividend cover, as well as reduce the OCF (see charges). However, once the RCF has been brought down, there is a clear opportunity to make accretive buybacks and continue to optimise the portfolio to maximise returns. Disposal activity, which has perhaps been slower than hoped, has so far been achieved at valuations in excess of book value, boosting NAV but also providing evidence that TRIG’s NAV may be conservative.

The graph below illustrates the consistency of annual returns delivered by TRIG since launch. The relatively smooth trajectory of returns is part of the managers’ strategy, which, as discussed in the **Portfolio section**, seeks to minimise volatility of returns through diversification. Over time the diversity of revenue sources has enabled the company to deliver a smoother pattern of returns. NAV total returns for 2023 were negative for the first time in the decade since launch, a result of the significant headwinds of inflation moderating faster than expected, but also higher interest rates being reflected in a higher portfolio discount rate used to value TRIG’s assets. With operational factors impacting the portfolio, but also a decline in near term electricity prices, 2024 has also seen a negative return to date.

Fig.4: Calendar Year NAV Total Returns

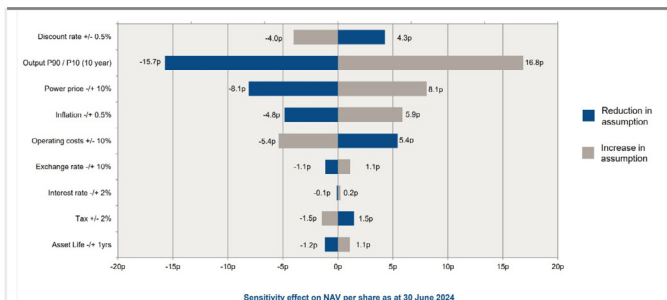


Source: The Renewables Infrastructure Group, Morningstar

Past performance is not a reliable indicator of future results.

As we have highlighted above, TRIG’s future returns are influenced by the manager’s own activities and the operational performance of the portfolio, but also by changes to macroeconomic expectations. The operational performance in 2024 serves as a useful reminder that TRIG’s NAV is sensitive to electricity output and price, and we show below the various sensitivities of the NAV to these different variables. In many ways, the diversification across wind, solar and increasingly battery storage gives TRIG a reasonable degree of resilience in terms of output. However, the other risk is clearly wholesale electricity prices, which are currently intrinsically linked to gas prices.

Fig.5: Sensitivity Analysis



Source: The Renewables Infrastructure Group, Morningstar

Past performance is not a reliable indicator of future results.

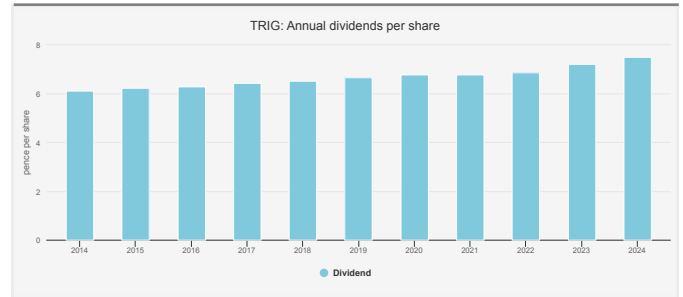
Dividend

TRIG pays a high dividend covered by cash, which currently yields 8.2% at the current share price of 92p per share. Over the past five years, the dividend has risen by 12.5% in total, equivalent to growth of c. 2.4% per annum. TRIG’s managers look to manage risks as well as provide strong returns, so whilst the dividend yield and dividend progression is less high than some peers, on a risk-adjusted basis TRIG remains competitive. Underpinning TRIG’s resilience is the fact that 67% of TRIG’s revenues are insulated from electricity price changes over the next ten years. 57% of total expected revenues are directly and contractually linked to inflation for the next ten years, giving shareholders a relatively high degree of certainty, as long as TRIG continues to generate electricity in line with expectations.

We understand that the board is mindful of setting the correct balance between paying a sustainable dividend for the long term and the desire to provide a progressive dividend. Bearing this in mind, the board has prioritised paying down floating-rate debt and share buybacks, instead of paying significantly higher dividends with TRIG’s surplus capital that it earned in 2022 and 2023. Given the operational challenges that the portfolio has endured in 2024 (see **Portfolio section**), this appears to have been a good decision by the board. However, given buybacks are so accretive at the current discount to NAV (see **Discount**

section), we think it makes sense that TRIG’s board channel surplus cash flows into buybacks rather than incremental dividend increases at the current juncture.

Fig.6: Annual Dividend

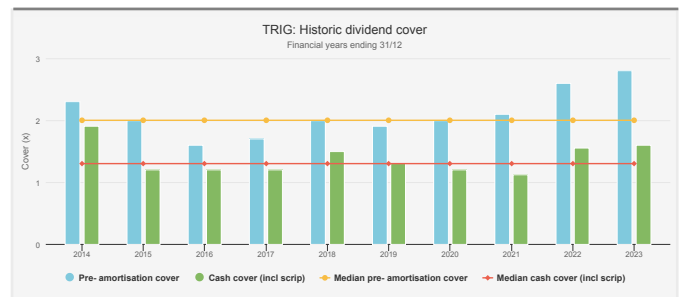


Source: The Renewables Infrastructure Group

Higher interest rates around the world, and specifically the UK, have certainly made TRIG less attractive on a relative basis, which we believe is the major contributor to the discount widening out. Over the long term, it is worth bearing in mind that TRIG’s revenues are positively correlated with inflation, and so whilst savings accounts or fixed interest bonds offer relatively high nominal returns, TRIG’s offers the potential to deliver real returns. As we discuss in the **Performance section**, TRIG offers a prospective total return of 8.3% on a NAV basis before fees, the majority of which comes from a covered dividend, which has averaged over 1.25x on a median basis since IPO.

Dividend cover has been impacted in 2024 year to date by materially lower electricity prices than achieved in recent years and cable outages at two of TRIG’s larger assets – the UK offshore wind farms, Hornsea One and East Anglia One. Both of these outages are now repaired, but the impact has been lower-than-expected dividend cover, which is expected at c. 1.1x on a cash basis, before returning to the long-term average of 1.2x to 1.3x from 2025. With the dividend still projected to be covered this year, 2024 shows the resilience in TRIG’s model. In the chart below we also include dividend cover before debt repayments, which, as discussed in the **Gearing section**, are made formulaically for TRIG’s structural, project finance debt.

Fig.7: Annual Dividend Cover



Source: The Renewables Infrastructure Group

Management

TRIG has two managers who work together to achieve the trust's aims: InfraRed, which has many years' experience of infrastructure investments and is also the manager behind HICL Infrastructure (HICL), and RES, which is one of the world's largest independent renewable energy companies. InfraRed is responsible for the financial management, sourcing and execution of new investments, whereas RES has a dedicated team of more than 40 staff providing portfolio-level operations management for TRIG.

InfraRed specialises in investment in infrastructure and operates as a distinct business, despite being majority owned by Sun Life Financial. InfraRed manages US\$13bn+ of equity capital for investors around the globe, in listed and private funds, across both income and capital-gain strategies. InfraRed is part of SLC Management, the institutional alternatives and traditional asset management business of Sun Life headquartered in Canada.

Minesh Shah took over from Richard Crawford as the individual responsible for the InfraRed team managing TRIG in July 2024. Minesh had worked closely with Richard for a number of years, having led on the development of TRIG strategy, screening pipeline transactions and risk management.

Chris Sweetman at RES is responsible for the day-to-day management of the assets. He has been a senior member of the RES team since TRIG's IPO. RES is one of the largest independent renewable energy developers in the UK and the Republic of Ireland and is a privately owned part of the Sir Robert McAlpine group of companies. It has over 40 years' experience in renewables construction and operations. RES is headquartered in the UK, with over 4,500 staff employed in renewables across the globe. It has developed and constructed over 23GW of capacity, and supports an operational asset portfolio exceeding 41GW worldwide for a large client base. The managers are overseen by TRIG's independent board of six directors, chaired by Richard Morse, who has more than 30 years' experience in the energy, environmental and regulated infrastructure sectors, as well as a wealth of experience in investment company governance.

Discount

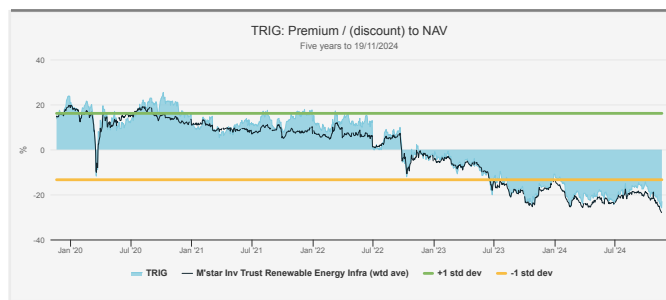
TRIG's discount, along with the peer group, has suffered a significant widening over October 2024, which we illustrate in the graph below. As we discuss in the **Portfolio** and **Dividend sections**, TRIG has faced operational challenges this year. However, the ability of the portfolio to continue to deliver attractive returns in the future has not fundamentally changed, and the dividend remains cash covered. Indeed, the managers have stated that

they expect dividend cover to recover next year towards the historic average of between 1.2x and 1.3x. As such, the current discount to NAV may in time be seen as an attractive entry point. We note that TRIG has consistently traded at a premium rating to the peer group, a function in our view of its underlying assets, which are of institutional quality, with significant size and scale.

The underlying portfolio discount rate used to value TRIG's assets (representing the expected IRR from the portfolio before fees), shareholders may expect the shares to generate a total return of c. 7.3% pa after management fees and charges, a return that would be significantly enhanced in share price terms if the discount to NAV narrows. Whilst the 24% discount to NAV is wide by historical standards (the average discount over the past five years is a premium of 1.4% according to Morningstar), the board needs to weight the benefits of buying shares back with the other potential uses of cash, including repaying short-term borrowings, and financing TRIG's pipeline of committed investments. The board has a £50m share buyback programme, which was commenced on 09/082024. So far, as at 28/11/2024, c. 0.68% of shares in issue have been repurchased at a total cost of c. £17m.

Historically, indications by the Bank of England of a future cut in rates, has been met with a positive move in TRIG's share price. As such, we believe that shareholders need to be patient to see a material re-rating of the shares. However, in our view, investment demand for a relatively consistent, higher-yielding investment with a link to inflation, such as TRIG, will endure. We observe that investors waiting for the discount to narrow are being paid to wait, with a dividend yield of 8.2% at the current share price.

Fig.8: Discount



Source: Morningstar

Charges

Over time, as TRIG has grown, shareholders have become used to the OCF falling. Aside from the usual economies of scale, TRIG's management fee is tiered, which means that as the company has grown, the marginal cost of the fee falls. Of the management fee, 65% goes to InfraRed



and 35% to RES. There are no performance or acquisition fees. The management fees payable by TRIG are charged on adjusted portfolio value, which is effectively the NAV plus any of the acquisition facility that has been drawn down and invested.

TRIG's OCF rose for the first time in 2023, in large part a result of the higher costs of the short-term flexible gearing facility (the RCF, see **Gearing section**). For the financial year ending 31/12/2023 TRIG's OCF was 1.04%, representing an increase from 0.93% in the prior year. Shareholders will welcome the fact that for the six months to 30/06/2024, the annualised OCF has fallen once again to 1.03%, and as the RCF is progressively repaid, we would anticipate the OCF to continue to fall.

The updated KID RIY figure is 0%. We note that the regulations around KID disclosures are changing. See [this article](#) for more information.

ESG

TRIG has been qualified as an Article 8 fund under SFDR, in which it 'promotes environmental and social characteristics'.

TRIG has four stated sustainability goals:

- Mitigate climate change
- Preserve our natural environment
- Positively impact the communities we work in
- Maintain ethics and integrity in governance

The board and managers believe that renewable energy is an asset class in which it is possible to achieve an attractive long-term investment yield, whilst making a major contribution to lower global carbon emissions. The board believes it can also make a significant contribution through how it delivers this outcome, and in this regard has been making incremental progress over the years. In its 2024 sustainability report, the board reports that its commitment to implement sustainability through everything has led to the creation of TRIG's ESG Committee, chaired by board member Selina Sagayam.

This updated sustainability report was published in May 2024, and is [available here](#). Highlights in 2023 included the introduction of a key supplier net zero engagement target to further TRIG's alignment with the objectives of the Paris Agreement, expansion of the physical climate risk assessment on the portfolio and enhancement of biodiversity initiatives, including the completion of a first annual maintenance and monitoring programme for habitat management plans across TRIG's UK solar farms. Additionally, a key focus in the year was improving data

collection and data quality from across the portfolio, enabling TRIG to disclose Scope 3 emissions and consequently report against all 11 recommendations of the TCFD in their annual report.

Undeniably, TRIG makes a significant contribution to tackling climate change and over 2023 the 6TWh of electricity generated is equivalent to 2.1m tonnes of carbon emissions avoided. The current portfolio is capable of powering the equivalent of 1.9m UK homes annually.



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