



23 May 2016

Price
112.75p

Last actual adjusted NAV (10 May 2016)
203.55p

Key Data

Ticker	UTL
Listing	LSE
Domicile	Bermuda
Market cap (£m)	105.8
Investment Adviser	ICM Ltd
Ann mgmt fee†	0.5% of gross assets
Perf fee†	Yes

FUND OBJECTIVE: To provide long-term capital appreciation by investing in undervalued investments with the flexibility to make investments in a wide range of sectors and markets worldwide. These include shares, bonds and convertibles and unquoted investments.

†The manager has agreed to reduce the management fee to 0.25% pa from 1 January 2014 until the high water mark of 289.81 is regained. Performance fee is 15% of the outperformance of the NAV vs. the yield of the FTSE Actuaries Govt. Securities UK Gilts (5-10 years) index, subject to a high water mark.

Somers Limited is the substantial shareholder (84.6%) of Stockdale Securities Limited. Utilico Emerging Markets Limited and Somers Limited both have a significant common shareholder, UIL Limited.

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UIL Limited*

Placing of new 2022 ZDP shares, 6.25% GRY

On 18 May, UIL (UTL) released details of its plans to create a new class of 2022 ZDP. The aim of this new issue will be to provide UIL with new financing and simultaneously fund the redemption of the existing 2016 ZDP. Under its terms, this would also allow the opportunity for holders of the existing 2016 ZDP to rollover some or all of their 2016 ZDP shares into the new 2022 ZDPs (subject to overall limits on the Rollover Offer). With an issue price of 100p, the new shares will be placed at a GRY of 6.25% with a final capital entitlement of 146.99p on 31 October 2022. The company also plans to issue up to 25m 2020 ZDPs pursuant to the placing programme. UTL intends to continue to realise further investments from its portfolio. These proceeds, when taken together with the proceeds from the Initial Placing, the Placing Programme, the borrowings under the Existing Loan Facility, and the New Loan Facility, are expected to provide the balance of funding required to finance the redemption of the 2016 ZDP Shares on 31 October 2016.

Table 1: Expected timetable for 2022 ZDP

Publication of prospectus	18-May-16
Latest date for rollover decisions	10-June-16
Deadline for indications of initial placing interest	13-June-16
Admission of new ZDP shares to the Official List	23-June-16

Source: Company data, Stockdale estimates

Table 2: Key statistics for 2022 ZDP†

Gross redemption yield (%)	6.25
Remaining life (years)	6.35
2022 ZDP cover post issue of £40m (x)	1.52
<i>Fall in UTL gross assets to loss of cover (%)</i>	34.26
Fall in UTL gross assets to loss of cover – annual rate (%)	6.39
Fall in UTL gross assets to wipe-out (%)	50.82
Fall in UTL gross assets to wipe out – annual rate (%)	10.57
Final capital entitlement (p)	146.99
Redemption date	31-Oct-22
First issue date	23-June-2016

Source: UIL Ltd, Bloomberg, Stockdale estimates † For calculations and assumptions see page 2

Under the Placing Programme, UIL Finance has the ability to issue up to 50 million 2022 ZDP Shares (less the number of 2022 ZDP Shares issued under the Rollover Offer and the Initial Placing) and up to 25 million 2020 ZDP Shares at the applicable Issue Price. The Placing Programme is flexible and may have a number of closing dates in order to provide UIL Finance with the ability to issue Placing ZDP Shares over a period of time. The Placing Programme will open on 18 May 2016 and will close on 17 May 2017 (or any earlier date on which it is fully subscribed). The Placing ZDP Shares will, when issued, rank equally with the ZDP Shares of the relevant class then in issue.

Launched in May 2004, UIL is a closed end investment company incorporated in Bermuda. The Fund offers a leveraged exposure to a broad range of assets where the manager believes that the underlying value is not fully reflected in the market price. This provides for a highly flexible investment allocation by sector and market. As at 30 April 2016 the Group's investment portfolio amounted to £421.7 million of which listed investments amounted to £329.3 million, unlisted investments £67.7 million and loans to listed investments £24.7m.

Principal bases and assumptions made

The assumptions made are as follows:

- The Company had 90,653,789 Ordinary Shares in Issue, 47,500,000 2016 ZDPs, 49,842,413 2018 ZDPs and 25,000,000 2020 ZDPs in issue as at 18 May 2016;
- As at 10 May 2016, the Company had gross assets of £415.5m, net assets of £184.5m and a NAV per ordinary share of 203.55p;
- The costs of the Proposals, assuming a total of 10 million 2022 ZDP Shares are issued pursuant to the Rollover Offer, 40 million 2022 ZDP Shares are issued pursuant to the Initial Placing and 11.8 million 2020 ZDP Shares are issued pursuant to the Placing Programme are approximately £1.0 million (excluding VAT);
- As at 10 May 2016, the Company had bank debt of £47.7m;
- A total of 50 million 2022 ZDP Shares arise on the conversion of 2016 ZDP Shares pursuant to the Rollover Offer and/or pursuant to the Initial Placing at 100 pence per 2022 ZDP Share;
- 11.8 million 2020 ZDP Shares are issued pursuant to the Placing Programme;
- UIL realises £27.5 million from the sale of investments from its portfolio;
- No allowance is made for investing the net proceeds of the initial placing or the placing programme.
- No corporation tax or capital gains tax is payable by the company and no other changes occur in any relevant taxation law or practice.
- There are no changes to generally accepted accounting practices relevant to the company and no changes in its accounting policies.
- In addition to the Proposals announced by UIL Finance today, the UIL Board has today announced the proposed conditional purchase of 2.45 million ordinary shares in Somers to be satisfied by the issue of new UIL ordinary shares valued at NAV at the latest practicable date prior to completion. The purchase will take UIL's interest from 49.6% to 70.1% of Somers' ordinary share capital. It is proposed that UIL purchase 2.45 million ordinary shares from Permanent Investments Limited which is a related party of ICM Limited, the joint portfolio manager. As a result, UIL Shareholder approval of this transaction is required pursuant to Listing Rule 11 and a separate circular is being sent to UIL Shareholders. In addition, the proposed purchase is also subject to the receipt of all necessary FCA and other regulatory approvals. The proposed purchase of Somers' ordinary shares is intended to increase UIL's Gross Assets increasing the ZDP Cover for the ZDP Shares and allow UIL to benefit commensurately from any future uplifts in the value of Somers' underlying investments. .

ZDP cover calculation

The cover of the ZDP Shares is calculated as the ratio of (i) the gross assets less net current liabilities (excluding net debt) of the Group; to (ii) the sum of the amount required to pay the final capital entitlement of the ZDP Shares and the net debt of the Group.

Figure 1: UIL share price graph



Source: Bloomberg, Stockdale Securities

Investment Funds research disclosures

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Investment Funds recommendation proportions in last quarter

	BUY	HOLD	SELL
Funds to which Stockdale has supplied investment banking services excluding AIM	100%	0%	0%

Source: Stockdale

The company has seen this research but no material changes have been made as a result.

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