Chairman's statement

I am pleased to present the Company's annual report for the year ended 30 September 2024.

Andrew Didham
Chairman

Introduction

I am pleased to present the Company's annual report and financial statements for the year to 30 September 2024. The Company's shares have continued to trade at a material discount[1] to the NAV during the year. The impact of a higher rate environment, combined with reduced demand from wealth and retail investors looking for alternative sources of income, continues to weigh on the Company's share price.

The current yield on 15-year gilts is similar to where it was at the Company's IPO. The disconnect between the Company's shares trading at a premium at IPO and for the majority of the period since, and the material discount[1] at which it trades today, remains. However, over this period, it has a 14 year track record of delivering on its objectives of income generation, capital preservation and diversification. The Company's mature, diverse and operational portfolio will continue delivering on these objectives moving forward.

The Company remains committed to the capital allocation policy set out in the 2023 annual report. While progress on disposals has been slower than expected, the Investment Adviser continues to progress with material transactions that will, if completed, allow the Company to achieve the objectives set out in the previous annual report.

As a Company that invests in UK infrastructure that benefits from public sector support, the wider policy environment and the availability of long-term revenue support models is important. The new Government has adopted, and in certain cases extended, ambitious targets for infrastructure deployment to address the challenges of population change, decarbonisation and energy security, as well as the transition to a digital economy. It has been encouraging to see the growth of the contract-for-difference scheme which supports renewable energy generation and the emergence of other contract-for-difference, regulated asset base or cap and floor revenue support models in sectors such as biomethane, carbon, hydrogen, sustainable aviation fuels, interconnectors and long duration energy storage. These may present opportunities for the Company when it resumes investing in the future. The expected increased focus on policy which supports new infrastructure development across the planning process, grid connections and the establishment of the National Wealth Fund (previously the UK Infrastructure Bank) is also encouraging.

1. APM – for definition and calculation methodology, refer to the APMs section on pages 170 to 172.

Capital allocation policy

The Board remains committed to the capital allocation policy detailed in the Company's 2023 annual report. Progress has been made during the year, with further developments made post year end, as the Company seeks to execute on its target of releasing £150 million (c.15% of the portfolio) to facilitate the key priorities of the policy:

— reduction of leverage, reducing the drawn balance of the RCF to zero;

— return at least £50 million of capital to shareholders, in addition to maintaining the Company's dividend target; and

— rebalancing the portfolio and materially reducing exposure to supported living, and to merchant electricity prices, while re-focusing the portfolio on debt.

Reduction of leverage

The Board has prioritised the reduction of leverage whilst interest rates have been elevated. The Company's RCF was refinanced in March 2024, with total commitments reduced from £190 million to £150 million in line with this stated aim. The drawn balance of the facility has reduced from £104 million at 30 September 2023 to a materially reduced level of £57 million at year end following repayments. Subject to the completion of a further pipeline of disposals, the Company continues to work towards reducing drawn balances to zero alongside the buyback programme. Further details on the Company's financing activity are provided on page 56 and details of the RCF can be found in note 15.

Return of capital

In total, 3.4 million shares were repurchased during the year under the existing share buyback authority. The repurchase of shares continues to offer attractive returns, given the current discount[1] to NAV, and the dividend yield on the share price of 8.9% at 30 September 2024. The Company's shares have traded at an average discount[1] of 32.4% during the year and an average premium[1] of 3.4% since IPO. At 30 September 2024, the share price was 78.90 pence, representing a discount[1] to NAV of 25.0%.

The Company will be recommencing the share buyback programme imminently, and remains committed to its target of returning at least £50 million to shareholders in the near term.

The method by which the Company will return £50 million of capital to shareholders remains under consideration. The Board continues to believe that the use of share repurchases is a means of addressing imbalances in supply and demand which may otherwise create volatility in the rating of the Company's shares.

Portfolio rebalancing

The focus of investment-related activity for the Investment Adviser and the Board during the year was releasing the target £150 million of capital through refinancings and disposals. The first of these occurred in April 2024, when the Company announced the disposal of its interest in loan notes secured against Blackcraig Wind Farm, a 52.9MW onshore wind farm located in Dumfries and Galloway, Scotland. The disposal generated net cash proceeds of £31.4 million which represented a 6.4% premium to the valuation of the investment at 31 March 2024.

Further transactions were completed post year end, including the disposal of a portfolio of rooftop solar assets installed on domestic properties across the UK, generating proceeds of £6.8 million. The Company expects to complete, subject to contract, on the disposal of a portfolio of two onshore wind farms in the UK, expected to generate proceeds of c.£20 million. Transactions in the supported living sector have been significantly slower moving than expected; however, there is positive momentum and the Company believes it will be able to materially reduce exposure to this sector in 2025.

The Company made one new loan of £2.6 million in the year to an existing borrower. Portfolio follow-on investments of £24.7 million made during the year were focused on restructuring and management to preserve value and potential future profitability. This was offset by repayments of £39.2 million, giving a net repayment from the existing portfolio of £11.9 million.

1. APM – for definition and calculation methodology, refer to the APMs section on pages 170 to 172.

Chairman's statement continued

Financial performance

This year, financial performance continued to be driven by electricity prices and inflation. A material cooling in both factors resulted in downward revaluations during the year and had a resulting negative impact on profitability. The Company generated total profit and comprehensive income of £19.5 million (30 September 2023: £30.9 million).

The net assets of the Company decreased to £913.1 million (105.22 pence per share) from £956.6 million the previous year (109.79 pence per share). Further information on financial performance can be found on pages 54 to 57.

The Company seeks to pay regular, sustained, long-term dividends to shareholders, and paid a 7.0 pence per share dividend for the year, in line with the target for this financial year. The same target[1] is reaffirmed for the forthcoming financial year. The dividend of 7.0 pence per share for the year was 0.3 times covered on an earnings cover[2] basis, which includes investment revaluations in accordance with IFRS, and was 1.0 times covered on an adjusted earnings cover[2] basis, calculated on the Investment Adviser's assessment of adjusted net earnings[2] in the year. Further information can be found on page 57.

ESG

The Company's portfolio continues to have a positive impact as it contributes to the generation of renewable energy and finances infrastructure that has clear benefits to users in society. The Board and the Investment Adviser believe that investing in assets with a positive environmental and social impact is key to protecting our planet for future generations.

The Company has made good progress this year against the ESG objectives set out in the 2023 annual report, including implementing an ESG policy to formalise ESG processes and ensure the Company's responsible investment practices align with the Investment Adviser's responsible investment policy.

The Investment Adviser obtained certification as a B Corporation during the year, formalising its sustainable and long-term business model. The certification provides a framework to ensure the Investment Adviser continues to operate in accordance with the highest sustainability standards. The Investment Adviser also improved its PRI score for the second consecutive year, highlighting its commitment to improvements in its ESG credentials. These achievements complement those of the Company, which was awarded the Green Economy Mark from the LSE in 2020 in recognition of the Company's contribution towards driving a greener economy.

More details on the Company's approach to responsible investment can be found in the sustainability section on pages 64 to 67.

Market outlook

At the time of writing, the Bank of England base rate is 4.75%, following the Bank of England's decision to cut rates by 0.25% in August 2024 and November 2024. These were the first cuts since the onset of the Covid-19 pandemic in 2020. Inflation has cooled significantly over the year compared to previous periods. CPI rose by 1.7% in the year to 30 September 2024, and then to 2.3% in the twelve months to 31 October 2024. The link between electricity prices and inflation in the UK is strong, and the Board recognises that geopolitical tensions in the Middle East and the conflict in Ukraine may impact electricity prices and have a knock-on effect on inflation going forward.

As mentioned previously, the policy backdrop for the sector has become increasingly positive. Despite this, there remains a disconnect between investment company sentiment and broader infrastructure investment. The Board and the Investment Adviser recognise there is a broad range of investment opportunities in the current market at attractive rates. However, these remain secondary to the priority of addressing the discount[2] and shareholder concerns.

1. The dividend target set out above is a target only and not a profit forecast or estimate and there can be no assurance that it will be met.
2. APM – for definition and calculation methodology, refer to the APMs section on pages 170 to 172.

The Board also acknowledges the positive developments post year end regarding cost disclosure requirements, with HMT drafting a Statutory Instrument to remove the requirement for investment companies to publish ongoing charges, a figure widely accepted to be an inaccurate representation of the actual cost of investing in shares in an investment company. With many citing this misleading cost as a headwind for investment in the investment company sector, the potential for the cost to be removed may create demand for shares going forward. The Statutory Instrument became law on 22 November 2024. However, following this announcement, investment platforms have said they will continue requiring ongoing charges to be disclosed. The Investment Adviser is working to address this, and the Board will continue monitoring the impact of cost disclosure on the Company's share price.

The Board

The Board composition will see several changes in the year ahead to align with corporate governance best practice. Michael Gray and Julia Chapman have both served on the Board for nine years, and their retirement will be phased over the coming year. Mr Gray will retire from the Board in February 2025, and Ms Chapman will stay on the Board for a further transition period, assisting with the identification of an appropriate replacement.

I would like to take this opportunity to acknowledge the important role Mr Gray and Ms Chapman have played in the stewardship of the Company during their tenure and thank them for their invaluable contribution to the Company.

I am delighted to extend a warm welcome to Ian Brown, who will be appointed to the Board subject to regulatory and shareholder approval. Mr Brown will bring a wealth of knowledge and experience in the UK lending and infrastructure sector and will greatly contribute to the Company's strategic direction.

Andrew Didham
Chairman

11 December 2024

For more information, please refer to the strategic report on pages 20 to 99.