

# Sequoia Economic Infrastructure Income Fund

Monthly Investor Report 29<sup>th</sup> February 2016



| Summary                                      | Ordinary Shares            | Company information     |  |
|--|----------------------------|-------------------------|--|
| Ticker                                       | SEQI                       | Website                 | <a href="http://www.seqifund.com">www.seqifund.com</a> |
| Listing date                                 | 3 <sup>rd</sup> March 2015 | Year end                | 31 <sup>st</sup> March                                 |
| Shares in issue                              | 302,548,728                | Inv. Adviser            | Sequoia Investment Management                          |
| Share price                                  | 103.50p                    | Custodian               | Bank of New York Mellon                                |
| <b>NAV per share</b>                         | <b>97.04p</b>              | Administrator           | Praxis   |
| Premium                                      | 6.7%                       | Auditors                | KPMG   |
| Total net assets                             | £293.6m                    | Brokers                 | Stifel Nicolaus Europe                                 |
| Market capitalisation                        | £308.4m                    | AIFM                    | International Fund Management Ltd                      |
| Invested portfolio as a % of NAV             | 93.4%                      | <b>Directors</b>        |  |
| <b>Including assets in settlement</b>        | <b>95.9%</b>               | Robert Jennings (Chair) |  |
| Portfolio yield-to-maturity / yield-to-worst | 8.6%                       | Jan Pethick             |  |
| Next expected dividend declaration           | April                      | Jon Bridel              |  |
|  |                            | Sandra Platts           |  |

## Overview

Sequoia Economic Infrastructure Income Fund Limited (the "Company") is a Guernsey-incorporated closed-ended investment company whose shares are traded on the main market of the LSE. The Company's investment strategy is to provide shareholders with long-term distributions by owning debt exposures to economic infrastructure projects across a diversified range of jurisdictions, sectors and sub-sectors. The total net annual return target of the Company is 7-8%.

## Company update

As of the 29th February 2016, the Company held 19 infrastructure bonds and 19 private debt investments, collectively valued at £277.6m including accrued interest, with an annualised yield-to-maturity (or yield-to-worst in the case of callable bonds) of 8.6% and a weighted average life across the acquired portfolio of approximately 5.5 years.

Approximately 55% of the Company portfolio comprises floating rate assets, with only four LIBOR floors (other than those at zero percent). As such the portfolio's yield is likely to increase over time as LIBOR increases.

The investments are diverse across the UK, Western Europe, Australia, Canada and the US and include a wide range of asset types including road, rail, utility, power, shipping, renewables and aircraft leasing.

Investments in February include:

- Allegheny Energy Supply, a US electricity distribution company
- MPLX, a US pipeline company
- Small incremental investments in DBB Jack-up Services A/S, an offshore wind maintenance service provider and the Castllake 2014 aircraft leasing company

The Investment Adviser continues to see attractive opportunities for the deployment of capital in the economic infrastructure debt

sector, and expects the overall yield on the portfolio to remain 8% or higher. Specific opportunities currently being pursued include private debt backed by light rail, aircraft leasing, and power; plus bond opportunities in the pipeline sector and electricity generation. In addition, the investment advisor has taken advantage of the softness in the credit markets to improve the portfolio is average credit quality without reducing its average yield, and the investment advisor expects this strategy to continue into March.

## C Share conversion

As announced on the 3<sup>rd</sup> February 2016, the C Share register closed at 5.30pm on the 2<sup>nd</sup> March 2016, after which the C Shares converted into new Ordinary Shares and dealings in these new Ordinary Shares commenced on the 3<sup>rd</sup> March 2016. The conversion ratio was 1.0375 Ordinary Shares for every one C Share, resulting in the issuance of 152,395,794 new ordinary shares. Based on the closing share price on the 3<sup>rd</sup> March of 104.0p, the total return for investors in the C Share from launch was a gain of 7.9p per share, equivalent to an IRR of 25%. Benefits of the conversion to shareholders include a reduction in the ongoing costs of the Company, an increase in the diversification of the portfolio and an increase in the range of potential investment ticket size.

## Company NAV performance

The increase in Company NAV to 97.04p per share arose primarily through:

- Interest income net of expenses of 0.4p;
- A gain of 0.9p on net FX movements; and
- A decline of 0.6p in asset valuations;

## Market summary

February showed some activity in the infrastructure debt sector with 7 transactions closing across the UK and Western Europe. Notable deals included the £182m primary financing

of the Westernmost Rough UK offshore wind transmission links, as well as the €200m bridge loan refinancing for the Pedemontana Lombarda Highway in Italy.

Opportunities in selected markets remained strong with US spread widening providing scope to improve credit quality and shorten duration. The emergence of new asset classes over the longer term, such as broadband and electricity storage, are creating new demand for infrastructure financing.

Sterling fell further during the month from \$1.42 to \$1.39 against the US dollar and weakened slightly against the euro, with one euro worth £0.78 at the end of February, compared with £0.76 at the end of January.

Equity markets were volatile during February, with the VIX hitting a 5-month high during the month. The company's shares remained stable by comparison, reflecting the more predictable nature of debt cash flows from a diverse portfolio that benefits from equity cushion at the asset level.

The Bloomberg USD High Yield Corporate Bond Index increased slightly to 143 from 142.

As part of a "flight to quality", 10-year US Treasury yields fell by 19 bps from 1.92% to 1.73%.

## Contact information

Sequoia Investment Management Company  
([www.seqimco.com](http://www.seqimco.com))

Randy Sandstrom +44 (0)20 7079 0483

[r.sandstrom@seqimco.com](mailto:r.sandstrom@seqimco.com)

Greg Taylor +44 (0)20 7079 0486

[g.taylor@seqimco.com](mailto:g.taylor@seqimco.com)

Dolf Kohnhorst +44 (0)20 7079 0482

[d.kohnhorst@seqimco.com](mailto:d.kohnhorst@seqimco.com)

Steve Cook +44 (0)20 7079 0481

[s.cook@seqimco.com](mailto:s.cook@seqimco.com)

(1) After conversion to ordinary shares; (2) Excluding accrued interest; (3) Including accrued interest and with investments in the process of settlement valued at cost

## Performance since launch

| Fund               | 1 month | 3 months | 6 months | 1 year | ITD <sup>(2)</sup> |
|--------------------|---------|----------|----------|--------|--------------------|
| Share price        | 2.5%    | -0.5%    | 1.3%     |        | 3.5%               |
| Total return       | 2.5%    | 1.0%     | 3.7%     |        | 7.1%               |
| NAV <sup>(1)</sup> | 0.7%    | 3.0%     | 3.6%     |        | 2.4%               |

(1) NAV performance includes dividends paid

(2) From inception-to-date (ITD)

## Portfolio summary (15 largest settled investments)

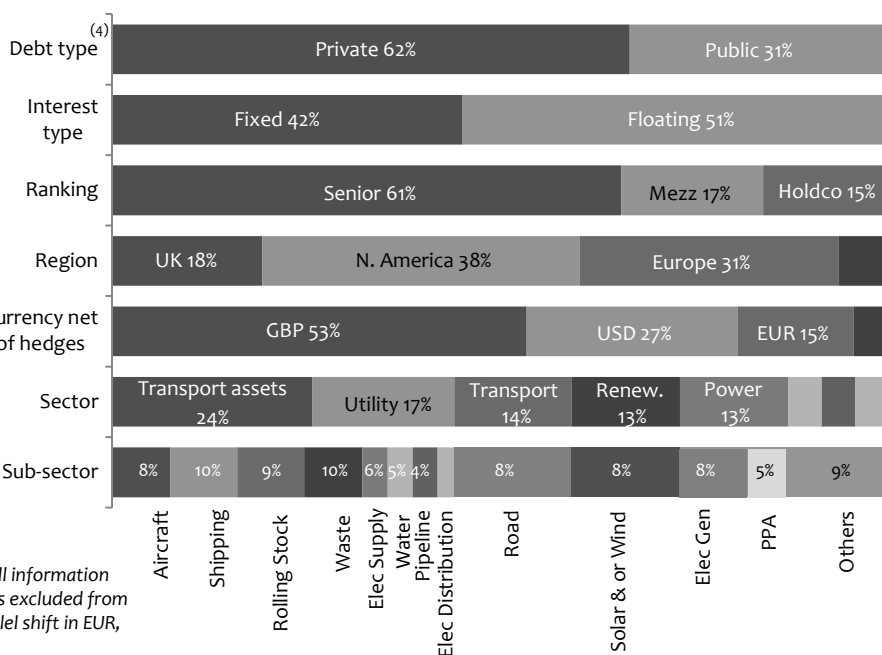
| Transaction name             | Currency | Type    | Ranking | Value £m <sup>(1)</sup> | Sector           | Sub-sector             | Yield <sup>(2)</sup> |
|------------------------------|----------|---------|---------|-------------------------|------------------|------------------------|----------------------|
| A'lienor S.A.S. (A65)        | EUR      | Private | Senior  | 28.3                    | Transport        | Road                   | 5.44                 |
| Infinis Bridge               | GBP      | Private | HoldCo  | 24.0                    | Renewables       | Solar & Wind           | 8.82                 |
| Danaos Snr Secured 2018      | USD      | Private | Senior  | 18.7                    | Transport assets | Shipping               | 8.13                 |
| Exeltium Mezzanine           | EUR      | Private | Mezz    | 18.0                    | Power            | PPA                    | 8.60                 |
| Neoen Production 1 S.A.S.U.  | EUR      | Private | HoldCo  | 15.2                    | Renewables       | Solar & Wind           | 7.00                 |
| Biffa TL A                   | GBP      | Private | Senior  | 12.9                    | Utility          | Waste                  | 6.85                 |
| Dulles Greenway 2029         | USD      | Public  | Senior  | 9.2                     | Transport        | Road                   | 6.44                 |
| North Las Vegas Water 6.572% | USD      | Public  | Senior  | 8.3                     | Utility          | Water                  | 6.99                 |
| Reliance Rail Finance 2018   | AUD      | Private | Senior  | 8.1                     | Transport assets | Rolling Stock          | 6.37                 |
| Invenergy TL B               | USD      | Private | Senior  | 7.2                     | Power            | Electricity Generation | 6.20                 |
| Green Plains TL B            | USD      | Private | Senior  | 7.0                     | Other            | Alternative Fuel       | 6.87                 |
| Castlelake 2015-1 C          | USD      | Public  | Mezz    | 6.8                     | Transport assets | Aircraft               | 10.05                |
| Care UK L+500 2019           | GBP      | Public  | Senior  | 6.7                     | Accommodation    | Elderly care           | 10.62                |
| NRG Energy Inc 7.785% 2021   | USD      | Public  | Senior  | 6.7                     | Power            | Electricity Generation | 9.57                 |
| Castlelake 2014-1 B          | USD      | Private | Mezz    | 6.7                     | Transport assets | Aircraft               | 7.79                 |

## Portfolio characteristics<sup>(3)</sup>

|                                      |            |
|--------------------------------------|------------|
| Number of investments                | 38         |
| Largest / average size (£ million)   | 28.3 / 7.2 |
| Average maturity / avg. life (years) | 5.5        |
| Portfolio modified duration          | 3.2        |

## Estimated portfolio sensitivities

|                                     | Change in NAV |
|-------------------------------------|---------------|
| Interest rates +0.5% <sup>(5)</sup> | -1.5%         |
| Interest rates -0.5%                | 1.6%          |
| Interest rates +1.0%                | -2.8%         |
| Interest rates -1.0%                | 3.2%          |
| Euro +/- 5% (against GBP)           | 0.7%          |
| Dollar +/- 5% (against GBP)         | 1.4%          |
| Euro down 5% and dollar up 5%       | -0.6%         |



(1) Excluding accrued interest; (2) Yield to maturity / worst; (3) All information based on settled investments only; (4) Percentage of NAV. Cash is excluded from the charts apart from currency analysis; (5) A simultaneous parallel shift in EUR, GBP and USD yield curves.

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