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Sequoia Economic Infra Inc Fd Ld
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Sequoia Economic Infrastructure Income Fund Limited
(the "Company")

STRONG INTEREST INCOME GENERATION FROM RESILIENT PORTFOLIO WELL POSITIONED TO DELIVER ATTRACTIVE AND SUSTAINABLE RETURNS
Interim Results for the six months ended 30 September 2024

KEY HIGHLIGHTS

Resilient portfolio generating substantial cash

- NAV per share growth of 1.3% to 95.03p (FY24: 93.77p), driven in part by the strong interest income of the portfolio (94.37p as at 31 October 2024).
- Total dividends of 3.4375p per share, consistent with full year target of 6.875p. First half dividend yield of 8.6%. Dividend cash cover of 1.06x.
- Total NAV return of 5.1% in the first half, on track to meet target annual gross return of 8-9%.
- Significantly outperformed Gilts by 3% over the six-month period and broadly in line with leveraged loans and high-yield bonds.

Maintaining credit quality of the portfolio without a reduction in targeted yields

- 54.8% of the portfolio in defensive sectors including digitalisation, accommodation, utilities and renewables.
- 58.5% of the portfolio in senior secured loans and 41.5% in subordinated debt, maintaining the high proportion of senior secured debt historically previously held.
- Low construction risk in the portfolio at 8.1%, achieved via higher scrutiny being applied to new construction assets at the origination stage of the investment process.

Good progress on recovering value from non-performing loans ("NPLs")

- Post the period end have resolved two out of the three challenging positions.
- Reduced proportion of NPLs to 3.7% of the portfolio (as at 30 November 2024) from 5.5% (as at 30 September 2024).

Stable or declining interest rate environment supportive for SEQI

- A gradually declining lower interest rate environment will benefit fixed rate loans and bonds by accelerating their move towards face values as they approach maturity (pull-to-par).
- 62% of the portfolio in fixed rate loans (FY24: 58%), taking advantage of higher base rates to generate higher levels of income as interest rates fall.
- Interest rate swaps increase visibility of future cash flows and provide protection for floating rate loans against a faster-than-expected fall in short-term rates.
- Decreasing inflation and interest rates enhance the appeal of alternative infrastructure investments relative to liquid credit.

Strong pipeline of investment opportunities, supported by a highly selective investment policy

- Net cash position of £68.8 million available to invest in new opportunities in addition to ongoing share buyback programme.
- Substantial, diverse pipeline of approximately £500 million in potential investments with an average yield of 10.1%.
- Commitment to maintaining highly selective approach to new investments, favouring defensive sectors with high barriers to entry that provide essential services and that are expected to benefit from an improving economic backdrop.

Proactive and balanced approach to capital allocation and sustained ESG progress

- Significant share buyback programme with 49.3 million shares repurchased in the last six months; one of the largest levels of buyback in the listed fund sector.
- Ongoing approach to target the share buyback strategically and potential to modestly increase fund leverage to take advantage of attractive pipeline of opportunities.
- Continued investor education and outreach plan to expand universe of investors and increase proportion of retail shareholders.
- Improvement in portfolio's weighted average ESG score to 64.65 (FY24: 62.77), driven by both acquisitions of higher-scoring assets and increased engagement with existing borrowers to enhance their ESG scores.

James Stewart, Chair, commented:

"I am delighted to announce another robust half year performance. As the economic challenges experienced in the previous financial year have begun to ease in the last six months, the Company has

demonstrated its adaptability, resilience, and ability to generate significant cash. This performance supports our ongoing balanced approach to capital deployment, underpinned by the Investment Adviser's extremely selective approach as it considers the strong pipeline of future opportunities, benefiting from ongoing strong market demand for infrastructure debt finance.

"The Board was delighted by the outcome of the Continuation Vote this summer. We take the 96.43% of votes cast in favour of the continuation of the Company as a strong endorsement of our strategy and a reflection of our commitment to active dialogue with shareholders. We continue our focus on addressing the discount to NAV at which shares currently trade and on delivering attractive and increasing returns to shareholders."

Randall Sandstrom, Director and CEO/CIO, Sequoia Investment Management Company, said:

"While the global macroeconomic outlook is varied, there are reasons to be cautiously optimistic that we are entering a less volatile economic environment. Policy interest rates are beginning to fall and the economies of key markets such as the UK, Eurozone and US have continued to improve, although the US is expected to slow moderately. Our investment strategy remains focused on positioning the portfolio to deliver attractive and sustainable returns even should the environment not improve by maintaining the robust credit quality of our portfolio and investments in economic infrastructure assets with defensive characteristics."

INVESTOR PRESENTATION
The Investment Adviser will host a presentation on the interim results for investors and analysts today at 09:00am GMT. There will be the opportunity for participants to ask questions at the end of the presentation. Those wishing to attend should register via the following link: https://brrmedia.news/SEQUX_HY_24/25

Copies of the Interim Report and Accounts will shortly be available on the Company's website https://www.seqi.fund/investors/results/ and on the National Storage Mechanism.

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About Sequoia Economic Infrastructure Income Fund Limited

- SEQI is the UK's largest listed debt investor, investing in economic infrastructure private loans and bonds across a range of industries in stable, low-risk jurisdictions, creating equity-like returns with the protections of debt.
- It seeks to provide investors with regular, sustained, long-term income with opportunity for NAV upside from its well-diversified portfolio. Investments are typically non-cyclical, in industries that provide essential public services or in evolving sectors such as energy transition, digitalisation or healthcare.
- Since its launch in 2015, SEQI has provided investors with over nine years of quarterly income, consistently meeting its annual dividend per share target, which has grown from 5p in 2015 to 6.875p per share in 2023.
- The fund has a comprehensive ESG programme combining proprietary ESG goals, processes and metrics with alignment to key global initiatives.
- SEQI is advised by Sequoia Investment Management Company Limited (SIMCo), a long-standing investment advisory team with extensive infrastructure debt origination, analysis, structuring and execution experience.

Chair's Statement

It is my pleasure to present to you Sequoia Economic Infrastructure Income Fund Limited's (the "Company" or "SEQI") Interim Report for the six month period ended 30 September 2024.

The economic challenges that we experienced in the previous financial year have eased steadily - inflation has gradually fallen and interest rates have also started to decline. The portfolio has remained resilient and adaptable with its short maturity loans and continues to generate sufficient cash to cover the dividend. We have also made significant progress on resolving the small number of problematic loans on our books.

NAV and share price performance

Over the first half of this financial year, the Company's NAV per share rose by 1.26p, or approximately 1.3%, from 93.77 to 95.03, driven in part by the strong interest income of the portfolio. Over the same period, the Company paid dividends of 3.44p per share, consistent with our full-year target dividend of 6.875p, resulting in a total NAV return of 5.1% (not annualised).

Total return over the six-month period	
SEQI share price	3.2%
SEQI NAV	5.1%
Leveraged loans	4.4%
High yield bonds	5.1%
Gilts	2.1%

This performance was significantly better than that of Gilts over the same period and is consistent with other comparable debt investments such as leveraged loans and high yield bonds. Since its IPO, the Company has significantly outperformed all of these markets. For example, £100 invested in high yields bonds at the time of Company's IPO would now be worth £137.13, while the same amount of money invested by the Company would now be worth £144.44, assuming in both cases that income is reinvested.

Notwithstanding this, the Board recognises that shareholder return is based on the Company's share price, which declined from 81.1p from 80.2p, reflecting a widening of the discount from 13.5% to 15.6%. After taking account of dividends, this resulted in a total return over the six months to 30 September 2024 on the shares of 3.2% (not annualised). The widening of the Company's discount to NAV has been a significant focus of our capital allocation strategy, which is further explored below.

Portfolio performance

As outlined above, the NAV performance over the half year was strong, with a total return of 5.1%, which annualises to approximately 10.2%. This reflects the portfolio's resilient interest income and solid credit performance.

As with any portfolio of investments, there will always be a risk that some experience financial difficulties. We have made good progress on some of our challenging positions: Bulb, Clyde Street and 4000 Connecticut Avenue (formerly Whittle Schools). These positions in aggregate represented 5.5% of the portfolio as at 30 September 2024; however by 31 October 2024 this had fallen to 4.5% as a result of a £16 million repayment of Bulb. In the same month, a sale of the Clyde Street loan was agreed, which completed in November 2024, further reducing the Care proportion of non-performing loans to 3.7% of the portfolio, keeping all other factors constant. In addition to these loans, a further 10% of the portfolio is subject to enhanced monitoring. This compares to 7% as at the end of the previous year; the increase is down to an improvement in the carrying value of the loan to Active Group, combined with further advances to the same group. These loans are not classed as non-performing.

Regarding credit risk, there are a couple of things that should be borne in mind. Firstly, the portfolio is highly diversified, with the average loan only representing about 2% of our portfolio and our largest loan representing no more than 4.1% of NAV; this means that should a loan underperform, it only has a limited impact on the overall portfolio. Secondly, the historical experience has been that, when loans to infrastructure projects default, lenders on average enjoy a higher level of recovery compared to other forms of corporate credit. This is because generally infrastructure is backed by assets or dedicated cashflows. The combined effect of these two factors is that the financial impact of bad debts on portfolio performance has been limited: the "loss rate" for the portfolio, i.e. credit losses, annualised and expressed as a percentage of the amount lent, is only 0.51% over the life of the Company. This compares to about 1.60% for high yield bonds or leveraged loans of a similar credit quality.

The Company's role in the infrastructure debt market

The fundamental driver of the Company's performance - what gives us the ability to deliver consistently strong risk-adjusted returns - is that we fill a real and persistent gap in the capital requirements of companies operating in the infrastructure sector. Broadly speaking, most infrastructure projects require very large amounts of long-term capital; this can come in the form of either debt or equity. Debt, for the most part, comes from bank lenders, the bond markets, some institutional lenders (such as insurance companies and pension funds), and specialist debt funds like us. The first three categories in this list could be described as "traditional lenders".

Traditional lenders clearly are incredibly important; their sheer size makes them so. But they are often limited in what they can do. For the most part, they only target investment-grade credit quality. They have rigid investment structures driven by internal policies, regulatory requirements, or bank capital rules. They are often overly cautious about new technologies and markets. They are typically unable or unwilling to look at subordinated debt.

These limitations mean that there may be a shortfall between the capital that traditional lenders can provide and the requirements of many infrastructure projects. That is where specialist debt funds like us can add value. By looking at the underlying characteristics of an infrastructure project - its assets and cashflows - rather than by being governed by the constraints of traditional lenders, we can provide debt at a yield that works both for us and for the borrower.

We aim to support high-quality equity investors by providing them with leverage on their infrastructure projects, where normal market lending terms are not available or are not attractive. Numerous examples exist: we were one of the first lenders to recognise data centres as an infrastructure asset class; we were pioneers in Polish solar projects under the current contract for difference ("CFD") regime; and we did groundbreaking transactions in floating gas infrastructure (i.e. vessels used in the liquid natural gas ("LNG") value chain). I have no doubt we will continue to lead the market in other new infrastructure sectors as these develop.

Capital allocation

SEQI, as a debt fund, is different from many other investment companies in the infrastructure sector in that our capital recycles approximately every four years. As such, deciding how we allocate our free that our capital recycles approximately every four years. As such, deciding how we allocate our free capital is a significant issue and something that the Board spends a lot of time debating. We also spend time listening to the views of our Shareholders and seek to adopt an approach that satisfies and takes into account the objectives of all our stakeholders.

In the last six months we have continued our "balanced" approach to capital deployment: Fund leverage has been largely repaid; the share buyback, helping to support the share price, has continued; and capital deployed selectively in a number of high-quality new investments. We strongly believe that this balanced approach is sensible in a period of uncertainty and elevated volatility, and the solid results for this half year bear that out. We have also refinanced our revolving credit facility ("RCF") on more attractive terms, for example a lower margin and better covenants, which give us more flexibility in the way in which the RCF can be deployed.

The Board continues to be frustrated by the share price discount to NAV, even if it is at the lower end of the Company's peer group, and has looked to take steps to address this. We have been proactive and bought back 49.3 million shares in the last six months - one of the largest levels of buyback in the listed fund sector - at a cost of £39.5 million.

Although we believe that the discount largely reflects the wider malaise in the UK listed fund sector (and especially so for alternative assets such as private debt, infrastructure and renewable energy), we are not complacent and are constantly looking at other ways to address the discount. We are actively looking to attract new investors into the Company, including from outside the UK. We have also been working on increasing the retail investor base within the UK and looking to build on our investor education and outreach activities to facilitate this. The recent, very helpful, progress on cost disclosure, which the Board and Investment Adviser both proactively supported, may help the investment company sector compete on a more level playing field with other fund structures.

We do not believe that the levels of discount to NAV that we have seen reflect the Company's long-term prospects, the resilience of its investment portfolio, or its ability to generate attractive returns for our Shareholders, and if unwarranted levels of discount occur, we expect to continue to buy in shares as appropriate.

Having said that, we are conscious that there are consequences linked to a reduction in the size of the fund. These include reduced diversification and a lower maximum deal size which may restrict us from supporting our target equity sponsors. We think there are benefits to scale for a private debt fund, both in terms of being able to source highly attractive infrastructure projects and retaining the core components required for a stable NAV product with a strong income focus to support the dividend. Scale also ensures that secondary market liquidity remains strong, which is important for attracting new investors to the Company.

We will therefore target the share buyback strategically, factoring in various considerations including the underlying liquidity of the portfolio, the Company's pipeline, dividend cover, portfolio diversification and the discount to NAV relative to the market. We may also look to modestly increase fund leverage to ensure that we can still deploy capital into attractive opportunities.

Market outlook

The economic outlook for the Company's main markets is varied but overall better than we have seen over recent years:

- The UK economy has shown resilience, with GDP in Q3 2024 being 3.0% above pre-pandemic levels. However, growth is expected to moderate due to persistent inflation and the ongoing effect of high interest rates.
- The US economy continues to grow, with GDP increasing by 0.7% in Q2 2024 and the advance estimate of Q3 2024 suggesting an additional increase of 0.7%, while CPI inflation finally fell below 3% in July.
- The Eurozone's economic outlook is more varied. While overall GDP grew by 0.2% and 0.4% in Q2 and Q3 2024 respectively, Germany's economy contracted slightly in Q2 2024, with a slight recovery in Q3 2024cfd. The region faces challenges such as high energy prices and geopolitical uncertainties, which affect consumer and business confidence.

With Donald Trump's election as President and a substantial portion of the Company's portfolio concentrated in the US, it is essential to assess potential impacts on infrastructure credit markets. Proposed tariffs on imports from countries like China, Canada, and Mexico could increase inflation, leading to higher borrowing costs and expenses for infrastructure projects. While some businesses may offset these costs through higher prices, sectors like construction with fixed budgets could face significant challenges. In the energy sector, the planned deregulation and reduced renewables subsidies might pose risks, but could be offset by the growing energy demand and streamlined permission processes for infrastructure projects.

There are reasons to be cautiously optimistic. Policy interest rates are beginning to fall, and this will be helpful for economic activity (and may also help our share price given our high dividend yield).

However, we have not invested on the basis of such optimism. In fact, our strategy has been to source investments which will be resilient even if conditions do not improve. Our investment strategy, as set out in the last Annual Report, is to maintain the robust credit quality of our portfolio, while targeting investments yielding 9-10%.

Dividend

Portfolio interest income remains resilient given the relatively high interest rates in the main markets we operate in, especially in the UK and the USA. The Company has a strategy of "locking in" these rates over the medium term through a combination of fixed-rate loans (i.e. making loans where our interest income will not fall if base rates fall) and using interest rate swaps (where we pay a floating rate of interest to a bank and in return receive a fixed rate from them). The overall effect of this strategy is that approximately 60% of our income is currently locked in over the medium term, protecting the Company even if base rates do fall in the coming months, as many people expect.

In this half year, our dividend remains fully cash covered by a factor of 1.06x. This is within the historical levels of circa 1.05x to 1.10x. We expect the dividend to remain cash covered over the second half of this year.

Environmental, Social and Governance

The Company continues to adhere to and progress its comprehensive sustainability programme, focused on our three main ESG principles. Firstly, our commitment to negative screening continued throughout the period. Secondly, thematic investing now covers 72% of the portfolio, up from 70% at the last year end, stemming from increased capital flows into infrastructure with social benefits. Lastly, the portfolio's weighted average ESG score improved from 62.77 at 31 March 2024 to now 64.65, driven by acquisitions of higher-scoring assets and, most meaningfully, improvements in the ESG scores of existing borrowers. This highlights the extensive work the team have been doing on our engagement strategy: enriching the dialogue with our borrowers on sustainability issues and collaborating to meet the evidence-based requirements of our scoring methodology. The year-end sustainability report in March 2025 will provide more detail and highlight some examples of these efforts.

Finally on this topic, I would like to congratulate Leah Dean, the Investment Adviser's Head of Sustainability, on winning the ESG Rising Star Award from IJ Global, which recognises her outstanding contribution to the Company's ESG initiatives.

The continuation vote

This summer, the Company held its regular triennial continuation vote. This is an important opportunity for our Shareholders to vote on the future of the Company.

We were keen to see as many shareholders voting as possible and had an active programme of shareholder engagement. We were naturally delighted that 96.43% of votes cast were in favour of the continuation of the Company and we take this to be a strong endorsement of our strategy which demonstrates that our unique fund remains relevant to our investors. However, we are not complacent and recognise that we need to do everything we can to return the share price to NAV and raise additional capital. This requires innovative thinking and constant review of our options. I strongly believe in the value of regular open dialogue with our Shareholders and personally met with a significant number of our leading investors after our results were published. As your Chairman, I will continue to ensure that a wide plurality of views are heard and reflected in how we run the Company.

Closing

I would like to close this year's statement by thanking my fellow Board members, the Investment Adviser, Investment Manager, our Broker, our Independent Advisers, and all of the other critical service providers who continue to manage the Company prudently and who have collectively positioned us well to deliver attractive and increasing returns. Thank you also to our Shareholders for your continued commitment and support.

James Stewart

Chair

4 December 2024

Investment Adviser's Report

The Investment Adviser's Objectives for the Year

Over the course of the first half of the financial year, Sequoia Investment Management Company Limited ("Sequoia" or the "Investment Adviser") has had the following objectives for the Company:

Goal	***Commentary***
Gross portfolio return of 8-9%	*The Company is invested with a portfolio that currently yields 9.9%, in excess of the Company's target annual gross return of 8-9%.*
Manage the portfolio responsibly through a falling interest rate environment	*The Fund has locked in higher base rates by keeping a high percentage of the Fund in fixed rate assets and by an interest rate hedging programme, resulting in an increased fixed rate exposure of 62% as of 30 September 2024, compared to 58% as at 31 March 2024. This will help protect the Fund's income should interest rates fall as widely expected.*
Follow sustainable investment processes	*The Company continues to adhere to and progress its comprehensive sustainability programme that extends through every part of the investment process. The latest sustainability policy, reports and publications can be found on our website: www.seqi.fund/publications/*
Timely and transparent investor reporting	*The Company's award-winning factsheet includes monthly updated commentary and portfolio holdings for full transparency. Investor engagement has continued over the period including a virtual capital markets seminar, smaller bespoke investor events and a results roadshow as well. Notably SEQI hosted its first ESG event, inviting sustainability professionals from its shareholders and other influential firms to discuss various ESG issues over breakfast.*
Continue to improve the ESG profile of the Company and the portfolio	*The Company has made a great improvement in the average ESG score of its portfolio from 62.77 as at 31 March 2024 to 64.65 as at 30 September 2024. This increase mainly comes as a result of ongoing ESG engagement with existing borrowers. There was also a net uplift to the average score coming from acquisitions of higher scoring assets during the period, which offset a small decrease contributed by disposals.*

Dividend target of 6.875p per share per annum	*The Company paid two quarterly dividends of 1.71875p per share in line with its dividend target, amounting to a total of 3.4375p.*

Economic infrastructure is a diverse and highly cash-generative asset class

Economic infrastructure debt has emerged as an investment class known for its stability and dependability, attracting a diverse class of investors. The companies we lend to benefit from substantial barriers to entry, such as high capital expenditure requirements and stringent regulations, which deter new competitors and safeguard the interests of existing investors. Additionally, these investments typically produce regular and predictable cash flows, ensuring a reliable revenue stream due to the essential nature of the services rendered. Moreover, the physical assets backing economic infrastructure debt provide tangible security for investors.

These features have consistently attracted interest in economic infrastructure debt from those seeking steady income and a reliable long-term investment. Sectors include transportation, utilities, energy, digitalisation, renewables, and certain social infrastructure projects with comparable attributes. These sectors often operate under long-term concessions or licences, with revenue structures tied to demand, usage, or volume. To mitigate demand risk, economic infrastructure projects usually operate with lower leverage compared to availability-based social infrastructure, maintain larger equity cushions, conservative credit ratios, robust loan covenants, and offer more substantial asset backing for lenders. Considering the market volatility experienced over the last few years, the Fund has prioritised operational projects, senior debt, and non-cyclical industries. These proactive measures have effectively mitigated risks associated with the recent inflationary market conditions and other global uncertainties, including the continuing conflicts in Ukraine and the Middle East.

The market environment during the period

While infrastructure debt benefits from inherent revenue stability, the Fund's valuations continue to be shaped by movements in the financial markets over the last year. The rapid decline in government bond prices in the previous year, followed by a partial recovery, has given way to a new phase of interest rate dynamics. Towards the end of the most recent period, central banks began cutting rates for the first time in four years, marking a shift from the previous policy of rate hikes aimed at controlling inflation. At the start of the period, yield curves remained inverted, reflecting a disparity between short-term and long-term government bond yields, but a notable flattening of the curves has since been observed.

Inflation rates in the US, UK, and Europe have fallen significantly. In the US, inflation dropped from 3.5% to 2.4%, in the UK from 3.2% to 1.7%, and in Europe from 2.4% to 1.7%. This decline has alleviated some economic pressures, and the expectation of further interest rate cuts remains strong.

The Fund's private debt portfolio remains susceptible to changes in interest rates and credit spreads in liquid markets. Although the previous decrease in the value of government debt, high yield bonds, or leveraged loans have at times negatively impacted the valuation of the Fund's investments, these fluctuations are generally unrealised mark-to-market changes that reverse as loans approach maturity. The effects of lower term rates are further discussed in the Market backdrop section of the Investment Adviser's report.

Private credit markets saw significant growth as companies sought alternatives to traditional financing in a challenging environment. Direct lending, particularly to private equity-backed firms, gained traction, offering flexible capital solutions and yield premiums over syndicated loans. The Fund is therefore able to capitalise on companies needing to restructure or refinance due to the increased debt costs compared to previous years.

Market backdrop

Inflation

What is happening?

Inflation across all of the Fund's investment jurisdictions has declined to levels approaching the respective central banks' targets, following the sharp increases observed during 2021-2022.

Why this matters to SEQI?

With inflation nearing target levels, the likelihood of future interest rate cuts rises, and enhances the appeal of alternative investments such as infrastructure relative to liquid credit. Additionally, lower inflation reduces cost pressures during project construction, thereby mitigating construction risk, assuming all other factors remain constant.

Interest rates

What is happening?

Central banks in the US, UK, and Europe have implemented the first cuts to overnight interest rates in four years, following a period of stabilisation.

Why this matters to SEQI?

The portfolio's floating rate investments are beginning to de-risk as their borrowing costs are past their peak and are anticipated to further decrease in light of the recent interest rate cuts and positive inflation figures. As a downward trend towards a lower interest rate environment emerges, this will benefit fixed rate loans and bonds by accelerating their pull-to-par. Additionally, as short-term rates fall, yield curves are expected to become less inverted or revert to a positive slope, which will encourage greater demand for risk in the market, but conversely might also discourage borrowers from entering into long-term debt commitments.

Bond yields

What is happening?

The difference between the 10-year and 3-month government bond yields has stabilised at around negative one percent for all of the Fund's investment jurisdictions. This spread is often used as a reference for the invertedness of the government bond yield curve.

Why this matters to SEQI?

As short-term rates continue to decline, yield curves are expected to become less inverted or return to a positive slope. This shift is likely to foster greater demand for risk in the market.

Portfolio overview

During this period, we have consistently focused on the ongoing development and management of a diversified portfolio of private debt investments across various infrastructure sectors and subsectors, specifically in areas with low political and regulatory risk. Our primary objective has been to maintain our targeted returns and risk profile. To achieve this, we have adhered to cautious investment strategies, including maintaining a significant portion of the portfolio in resilient sectors, favouring senior debt over mezzanine debt, and safeguarding the overall credit quality of the portfolio.

The current highlights of our portfolio, which reflect the results of these efforts, include:

- 54.8% of the portfolio in defensive sectors. These include digitalisation, accommodation, utilities and renewables, which are viewed as defensive because they provide essential services, often operate within a regulated or contractual framework or have high barriers to entry;
- low construction risk in the portfolio at 8.1%, achieved via higher scrutiny being applied to new construction assets at the origination stage of the investment process;
- 58.5% of the portfolio in senior secured loans and 41.5% in subordinated debt, maintaining the high proportion of senior secured debt we have previously held;
- maintained credit quality of the portfolio over the last 12 months without a reduction in targeted yields. Our policy not to invest in CCC profile loans remains in place; and
- low modified duration of 2.0, with 37.7% of the portfolio in floating rate deals and 62.3% in short-term fixed rate assets, both including the effects of interest rate swaps, and a current low portfolio weighted-average life of 3.5 years. Interest rate swaps form part of the portfolio as a cost-efficient product increasing visibility of future cash flows and providing protection against a faster-than-expected fall in short-term rates.

Investments are made in regions known for their stability and low risk, both regulatory and legal, and in accordance with the Fund's investment criteria. The Fund adopts a cautious approach to investments, particularly regarding greenfield construction projects. While it can allocate up to 20% of its net asset value to these projects, actual exposure to assets under construction was 8.1% as at 30 September 2024, below historical averages due to a conservative strategy amid slow growth and volatile market conditions. The Fund will selectively invest in projects that adequately compensate for moderate construction risks and employs strict criteria to assess the borrower's business strength, often avoiding projects with a combination of construction and demand risks.

The Fund's strategy is primarily focused on private debt, which encompasses the vast majority of its portfolio. This focus is driven by the "illiquidity premium" associated with private debt, which typically yields higher returns than similar liquid bonds. Research from the Investment Adviser indicates that infrastructure private debt instruments generally offer yields of 2%+ p.a. more than comparable publicly rated bonds in normal markets.

The Fund's investment portfolio is diversified by borrower, jurisdiction, sector and subsector, with strict investment limits in place to ensure that this remains the case.

NAV and Fund performance

Over the last six months, the Company's NAV per share increased from 93.77p per share to 95.03p per share ex-dividend, driven by the following effects:

Factor	NAV effect
Interest income on the Company's investments	5.39p
Losses on foreign exchange movements, net of the effect of hedging	(0.30)p
Negative market movements	(0.02)p
IFRS adjustment from mid-price at acquisition to bid price	(0.04)p
Operating costs	(0.80)p
Gains from buying back shares at a discount to NAV	0.47p
Gross increase in NAV	**4.70p**
Less: Dividends paid	(3.44)p
Net increase in NAV after payment of dividends	**1.26p**

The annualised total return on the NAV for the period was 10.2%, exceeding the Company's long-term net return expectations of 7-8% per annum. The portfolio's annualised performance was broadly in line with high-yield bonds, with a modest outperformance of leveraged loans by 1.4% and a more significant outperformance of 10-year Gilts by 6.0%. However, the portfolio underperformed relative to equity markets, trailing the FTSE All Share Index by 2.0% and the FTSE 250 by 6.1%. As in previous periods, the principal factor that positively influenced NAV performance was the interest income derived from investments. Valuation movements in the Fund's investments have been minimal with the majority of negative adjustments offset by an uplift in the valuation of the Fund's fixed-rate assets. Further positive "pull-to-par" effects will be recognised over time, as a substantial amount of unrealised valuation decreases that were caused by the rapid increase in term rates over recent years are likely to be reversed.

The Investment Adviser is confident that the portfolio is strategically positioned to outperform liquid credit markets over the long term for several key reasons. Firstly, private debt tends to deliver higher yields than liquid credit when comparing similar credit quality. Furthermore, infrastructure-backed debt is more resilient due to stronger asset support, as shown by the Fund's lower loss rates when compared to broader liquid credit with equivalent credit quality. Additionally, the portfolio's extensive diversification across sectors, subsectors, and regions helps mitigate the effects of risks tied to specific assets, industries, or countries, thereby lowering overall portfolio risk by ensuring low asset correlation.

Share performance

As at 30 September 2024, the Company had 1,576,216,485 shares in issue (31 March 2024: 1,625,484,274). The closing share price on that day was 80.20p per share (31 March 2024: 81.10p per share), implying a market capitalisation for the Company of approximately £1.26 billion, a decrease of c. £54.1 million compared to six months ago, partially due to the Company's share buyback programme, which has reduced the number of shares in issue. The Company cancelled all 154,046,443 of its shares held in treasury as at 25 April 2024, with an additional 37,976,070 having been purchased in the remaining part of the period and being held in treasury.

After taking account of quarterly dividends amounting to 3.4375p per share, the annualised share price total return over the period was 6.4%. The 0.90p decrease in the share price over the six-month period was driven by a persistent negative market sentiment toward alternative assets, including debt funds in the listed investment company sector. Capital outflows, driven by investors reallocating to tax-efficient government bonds and currently high-yielding money market instruments, have further pressured share prices. However, the sector experienced greater stability in the first half of this financial year as key market interest rates were cut for the first time in four years.

Both the Investment Adviser and the Company's Directors believe the current share price discount to NAV is still excessive but expect it to narrow as the headwinds facing the alternatives market begin to ease.

We believe that the current valuation does not fully capture the investment portfolio's potential to generate attractive risk-adjusted returns during periods of economic uncertainty, its relatively shorter investment duration, and its robust valuation methodology. In light of this, the Fund continues its policy of repurchasing shares, which it views as undervalued, thereby enhancing NAV per share for existing Shareholders. Over the past six months alone, the Company has repurchased 49,267,789 shares. The share buyback programme, initially announced to Shareholders in July 2022, has since resulted in the repurchase of 192,022,513 shares, representing 10.9% of the total issued shares as at the start of the programme. This initiative has contributed to an increase of 1.53p in NAV per share since the programme's inception.

Dividend Cover

The Fund has paid 3.4375p in dividends during the last six months in accordance with its target. The Company's dividend cash cover was 1.06x for the first half of the financial year. This is in line with the previous year's cash cover, where the lower amount of dividends paid due to the share buyback programme is closely matched by a reduction in income given the decrease in invested capital.

Looking forward, there is potential for growing the Company's dividend cash cover through a number of routes, including ensuring the portfolio is fully deployed, with minimal cash drag and recovering capital from non-performing loans.

Fund performance

		30 September 2024	31 March 2024	30 September 2023
Net asset value	per share	**95.03p**	93.77p	92.88p
	£ million	**1,497.8**	1,524.3	1,561.5
Annualised dividend yield		**8.6%**	8.5%	8.3%
Cash held (including in the Subsidiaries)	£ million	**88.7**	99.4	141.7
Drawings on RCF	£ million	**20.0**	0.0	0.0
Invested portfolio[1]	percentage of net asset value	**89.9%**	90.6%	90.3%
Total portfolio[1]	including investments in settlement	**93.5%**	94.2%	92.2%

1. Relates to the portfolio of investments held in the Subsidiaries

Portfolio characteristics

		30 September 2024	31 March 2024	30 September 2023
Number of investments		**56**	55	57
Valuation of investments	£ million	**1,346.3**	1,380.7	1,410.2
ESG score	Internal ESG scoring methodology	**64.65**	62.77	62.84
Single largest investment	£ million	**61.7**	60.6	60.2
	percentage of NAV	**4.1%**	4.0%	4.3%
Single largest counterparty exposure	£ million	**98.0**	99.1	118.1
	percentage of NAV	**6.5%**	6.5%	7.6%
Average investment size	£ million	**21.4**	22.6	23.5
Sectors	by number of invested assets	**8**	8	8
Sub-sectors		**29**	30	27
Jurisdictions		**10**	10	10

Private debt	percentage of invested assets	**94.4%**	96.9%	97.3%
Senior debt		**58.5%**	58.6%	53.5%
Floating rate		**37.7%**	42.1%	54.4%
Construction risk		**8.1%**	7.4%	11.2%
Weighted average maturity	years	**3.8**	4.4	4.2
Weighted average life	years	**3.5**	3.9	3.6
Yield-to-maturity		**9.9%**	10.0%	10.9%
Modified duration		**2.0**	2.2	1.5

As shown in the table above, the Company's net asset value decreased by £26.5 million during the period. This decline is primarily attributable to the share buyback program, partially offset by income generated by the Company after accounting for expenses and distributions.

The reduction in the weighted average maturity and life of the investment portfolio does not reflect a change in strategy or any significant shift in portfolio composition. Rather, it is due to the time elapsed since the last report was published and the relatively small number of new investments. Repayments and new investments have had minimal impact on these metrics, given their relatively small contribution to the overall portfolio.

The Investment Adviser targeted a slightly higher proportion of fixed-rate investments, at approximately 60% of the portfolio in these assets, net of interest rate swaps, to capitalise on the current elevated term rates. This allows the Company's investments to generate a higher level of income in a falling term rate environment compared to a more even split of fixed and floating rate assets. On the final day of the period, an unexpected repayment of a floating-rate asset temporarily increased this percentage beyond the target. However, this variance will be corrected through new investments over the remainder of the financial year.

Credit performance

Over the past six months, the Company's portfolio has displayed robust credit performance, supported by the increase in valuation of its fixed-rate assets. While the Investment Adviser mitigates idiosyncratic risk by investing in a well-diversified portfolio, the systemic risk involved in higher-yielding debt instruments entails that the portfolio will experience some credit issues given that the Fund has invested in over 250 assets. However, the Company's portfolio has had a low annual loss rate since its inception of 0.51%, down from the previous year's 0.53%. This constitutes a substantial outperformance compared to the 1.60% annual average loss rate of similarly rated non-financial corporate debt. Updates on the Company's non-performing loans can be found below.

UK energy supply company

The Investment Adviser has continued to make substantial progress on recovering value from the Fund's loan to Bulb Energy. The Company received the remainder of the £25 million partial settlement of claims with the Joint Energy Administrators of Bulb in October 2024, bringing total cash recoveries from the defaulted loan to Bulb to £41.0 million. In September 2024, a substantial portion of the assets and liabilities of Zoa Technologies Ltd ("Zoa") was sold to ENSEK, a SaaS platform wholly owned by Centrica. The overall value of the transaction, taking account of the residual net assets remaining at Zoa (which remains owned by the Company), was in excess of its book value. Zoa has now been renamed Clean Energy Labs Limited ("CELL"). Additional distributions are anticipated from Simple Energy, and further distributions from both Bulb and CELL may also occur over time. We will continue to provide updates as appropriate to Shareholders on any material developments relating to the investment. The value of the Fund's loan to Bulb is 1.8% of NAV as at 30 September 2024 and has been further reduced to 1.2% of NAV after the receipt of an additional repayment.

Glasgow property

This loan was backed by a hotel property in Glasgow, originally intended to be student accommodation. In the previous financial year, the Company foreclosed on the loan given its operational losses and the unlikelihood that the owners would be able to cover the loan's interest costs. As at 30 September 2024, the loan represents 1.0% of the Company's NAV. The loan was sold in October 2024 at a price consistent with its book value; the Company is also entitled to potential future "earn outs" depending on the performance of the asset.

US private school

A large building in a prime location in Washington, D.C. was used as collateral for this loan. This building was initially occupied by a private school under a long-term lease agreement. However, due to the COVID-19 pandemic, the school experienced a significant challenge in ramping up enrolment, leading to increased operational costs and eventually, insolvency. In 2022, the loan terms were revised and extended to support the borrower's post-pandemic business plan. Unfortunately, the school was not able to bounce back and was officially evicted from the property on 19 October 2022. The lenders are currently in the forbearance period and the property owner is actively marketing the building to potential tenants, mainly from the education sector, and is in advanced conversations with an educational institution in the Washington, D.C. area. This development is viewed as positive for the loan. As at 30 September 2024, this loan represents 2.2% of NAV.

Balance sheet management

At the start of the period, the Fund held a cash balance of £99.4 million with no outstanding balance on its revolving credit facility. Over the subsequent six months, a portion of the available credit facility was utilised to manage timing mismatches between repayments and new investments. By the end of the period, the Fund maintained a net cash position of £68.8 million, which included a £20.0 million draw on the revolving credit facility and a cash balance of £88.8 million. The Fund typically repays its credit facility as capital is received through repayments, while maintaining a buffer for day-to-day cash management. However, a full repayment of the Generation Bridge Northeast loan occurred on the final day of the period, leaving insufficient time to repay the revolving credit facility before the period closed. This repayment was executed the following month, enabling the full repayment of the revolving credit facility. The Investment Adviser plans to deploy the Fund's available liquidity into new investment opportunities over the next six months, alongside the continuation of the share buyback programme. The Company's over the next six months, alongside the continuation of the share buyback programme. The Company's liquidity outlook includes the utilisation of its revolving credit facility to avoid cash drag otherwise experienced in the period between repayments and re-investments. The Investment Adviser considers multiple scenarios of projected repayment profiles as a basis for the Company's dynamic RCF utilisation target.

Portfolio valuation

Currently, the average loan in the portfolio rated single B or higher is marked at approximately 98 pence to the pound. This primarily reflects the impact of higher interest rates and credit margins used for valuation, compared to those available in the market at the time the loan was originated (i.e. the effect of rising base rates and wider credit spreads). Over time, as these loans approach their repayment dates, their valuations are expected to accrete back up to 100 pence in the pound, assuming no credit losses. This is the "pull-to-par" effect.

These NAV estimates are calculated on the assumption that interest rates and bond yields remain constant, and they do not factor in NAV-accretive mechanisms beyond the pull-to-par effect; the only variable considered is the passage of time. Non-performing loans are excluded from the calculation, while recoveries on underperforming loans are based on internal credit ratings. The pull-to-par effect is expected to have a material impact on NAV over the next three years.

Period	Pull-to-par (£m)	Pull-to-par (pence per share)
1 October 2024 to 30 September 2025	21.8	1.38
1 October 2025 to 30 September 2026	15.1	0.96
1 October 2026 to 30 September 2027	9.7	0.61
1 October 2027 and after	6.5	0.41

Origination activities

The Fund's investment strategy targets assets in both primary and secondary debt markets, each offering unique advantages. In the primary market, the Fund benefits from earning immediate lending fees and tailoring investments to specific requirements. In contrast, secondary market acquisitions allow for the swift deployment of capital into established assets with a proven performance history.

Primary Market Origination

The Fund remains focused on the primary loan market, which consistently presents significant opportunities. The Investment Adviser actively seeks bilateral loans and participates in "club" deals, where a small group of lenders collaborates. Additionally, the Fund engages in more broadly syndicated infrastructure loans. Primary market loans are appealing due to their favourable economics, as they provide upfront lending fees and greater flexibility in negotiating terms. With the Fund's growth, its primary market activity has expanded and continues to be the majority (86.0%) of the portfolio.

Secondary Market Origination

Although the primary market is a key focus, the Fund also acquires assets from banks or other lenders in the secondary market. This approach enables faster capital allocation, as primary infrastructure debt transactions can take time to finalise. Additionally, secondary market assets tend to offer greater liquidity, providing the Fund with flexibility when liquidity needs arise. Research shows that infrastructure loans often experience improved credit quality over time, meaning many secondary loans offer enhanced credit strength compared to their original issuance.

Strong pipeline of opportunities

The Investment Adviser has continued its management of the Company's portfolio through enhanced monitoring practices. However, we are encouraged to report that many of the more time-intensive processes have now been successfully completed. This has enabled a renewed focus on origination activities, resulting in a substantial pipeline of approximately £500 million in potential investments. While it is understood that not every opportunity within this pipeline will convert into an investment, the range and volume of prospects demonstrate the abundance of opportunities available in the market.

Potential investments span seven sectors and twelve subsectors, offering a diverse array of options for the portfolio. Importantly, the average yield of these opportunities stands at 10.1%, slightly above the Company's gross target return range of 9-10%. The diversity and potential returns of the pipeline position the Company well for future growth, reinforcing confidence in the ongoing strategy.

In addition to the jurisdictions in which the portfolio has already invested, the Investment Adviser has begun to look selectively at potential investments in Italy and Portugal. While these have always been eligible jurisdictions under the investment policy, to date the Company has not invested in them. However, there are now potential investments in these jurisdictions that may meet the Company's risk and return objectives.

Team

During the reporting period, the Investment Adviser has experienced limited employee attrition and successfully recruited four new analysts to bolster the existing team. To promote the retention of expertise and institutional knowledge, a long-term incentive plan remains in place.

Sequoia Investment Management Company Limited

Investment Adviser

4 December 2024

Unaudited condensed interim statement of comprehensive income
For the period from 1 April 2024 to 30 September 2024

	Period ended 30 September	Period ended 30 September

	Note	2024 (unaudited) £	2023 (unaudited) £
Income			
Net (losses)/gains on non-derivative financial assets at fair value through profit or loss	6	(67,483,092)	17,186,265
Net gains/(losses) on derivative financial assets at fair value through profit or loss	8	50,330,671	(201,704)
Investment income	9	94,858,567	35,188,198
Net foreign exchange gains		257,226	4,231,846
Total income		**77,963,372**	**56,404,605**
Expenses			
Investment Adviser's fees	10	4,918,696	4,763,410
Investment Manager's fees	10	207,695	199,851
Directors' fees and expenses	10	163,293	177,806
Administration fees	10	246,263	201,326
Custodian fees		110,992	113,769
Audit and related non-audit fees		120,362	92,757
Legal and professional fees		1,223,394	756,445
Valuation fees		373,800	345,400
Listing and regulatory fees		85,283	67,623
Other expenses		334,326	228,047
Total operating expenses		7,784,104	6,946,434
Loan finance costs	14	2,020,391	3,784,731
Total expenses		**9,804,495**	**10,731,165**
Profit and total comprehensive income for the period		**68,158,877**	**45,673,440**
Basic and diluted earnings per share	13	**4.26p**	**2.68p**

All items in the above statement derive from continuing operations.

Unaudited condensed interim statement of changes in equity
For the period from 1 April 2024 to 30 September 2024

Unaudited	Note	Share capital £	Retained losses £	Total £
At 1 April 2024		1,720,452,093	(196,169,547)	1,524,282,546
Total comprehensive income for the period		-	68,158,877	68,158,877
Share buybacks	12	(39,489,172)	-	(39,489,172)
Dividends paid during the period	5	-	(55,098,669)	(55,098,669)
At 30 September 2024		**1,680,962,921**	**(183,109,339)**	**1,497,853,582**

For the period from 1 April 2023 to 30 September 2023

Unaudited	Note	Share capital £	Retained losses £	Total £
At 1 April 2023		1,808,622,511	(190,769,209)	1,617,853,302
Total comprehensive income for the period		-	45,673,440	45,673,440
Share buybacks	12	(43,270,931)	-	(43,270,931)
Dividends paid during the period	5	-	(58,803,088)	(58,803,088)
At 30 September 2023		**1,765,351,580**	**(203,898,857)**	**1,561,452,723**

Unaudited condensed interim statement of financial position

At 30 September 2024

	Note	30 September 2024 (unaudited) £	31 March 2024 (audited) £
Non-current assets			
Non-derivative financial assets at fair value through profit or loss	6	**1,450,642,064**	**1,493,171,675**
Current assets			
Cash and cash equivalents		13,925,933	7,507,495
Trade and other receivables	7	2,964,890	602,507
Derivative financial assets at fair value through profit or loss	8	55,174,966	28,098,804
Total current assets		**72,065,789**	**36,208,806**
Total assets		**1,522,707,853**	**1,529,380,481**
Current liabilities			
Trade and other payables	15	3,765,990	4,322,344
Derivative financial liabilities at fair value through profit or loss	8	1,076,477	775,591
Total current liabilities		**4,842,467**	**5,097,935**
Non-current liabilities			
Loan payable	14	**20,011,804**	**-**
Total liabilities		**24,854,271**	**5,097,935**
Net assets		**1,497,853,582**	**1,524,282,546**
Equity			
Share capital	12	1,680,962,921	1,720,452,093
Retained losses		(183,109,339)	(196,169,547)
Total equity		**1,497,853,582**	**1,524,282,546**
Number of shares	12	**1,576,216,485**	**1,625,484,274**
Net Asset Value per share		**95.03p**	**93.77p**

The Unaudited Condensed Interim Financial Statements were approved and authorised for issue by the Board of Directors on 4 December 2024 and signed on its behalf by:

Fiona Le Poidevin
Director

Unaudited condensed interim statement of cash flows
For the period from 1 April 2024 to 30 September 2024

	Note	Period ended 30 September 2024 (unaudited) £	Period ended 30 September 2023 (unaudited) £
Cash flows from operating activities			
Profit for the period		68,158,877	45,673,440
Adjustments for:			
Net losses/(gains) on non-derivative financial assets at fair value through profit or loss	6	67,483,092	(17,186,265)
Net (gains)/losses on derivative financial assets at fair value through profit or loss	8	(50,667,009)	201,704
Investment income	9	(94,858,567)	(35,188,198)
Net foreign exchange gains		(257,226)	(4,231,846)
Loan finance costs	14	2,020,391	3,784,731
Increase in trade and other receivables (excluding prepaid finance costs and investment income)		(31,397)	(45,731)
Decrease in trade and other payables (excluding accrued finance costs, investment income and share buybacks)		(172,166)	(632,698)
		(8,324,005)	**(7,624,863)**

Cash received on settled forward contracts		18,591,478	22,177,540
Cash paid on settled forward contracts		(23,139)	(16,889,615)
Cash received on disposal of interest rate swaps		5,323,394	-
Cash investment income received		50,989,194	78,497,163
Purchases of investments	6	(171,987,458)	(212,348,197)
Sales of investments	6	190,903,350	434,577,623
Net cash inflow from operating activities		**85,472,814**	**298,389,651**
Cash flows from financing activities			
Proceeds from loan drawdowns	14	35,277,121	-
Loan repayments		(15,495,491)	(179,836,032)
Payments of loan finance costs		(3,311,373)	(3,090,540)
Share buybacks		(40,369,048)	(43,953,088)
Dividends paid[1]	5	(55,098,669)	(58,803,088)
Net cash outflow from financing activities		**(78,997,460)**	**(285,682,748)**
Net increase in cash and cash equivalents		**6,475,354**	**12,706,903**
Cash and cash equivalents at beginning of period		**7,507,495**	**7,363,120**
Effect of foreign exchange rate changes on cash and cash equivalents during the period		(56,916)	2,273,702
Cash and cash equivalents at end of period		**13,925,933**	**22,343,725**

1 Excludes non-cash transactions.

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