



Results analysis: Sequoia Economic Infrastructure

SEI continues to offer a high income from a resilient portfolio.

Update
03 July 2025

- Sequoia Economic Infrastructure Income (SEI) has reported a NAV total return of 6.1% for the year ending 31/03/2024. The share price total return of 5.3% meant that the discount widened slightly to 15.4% from 13.5%. Since the year end, it has narrowed to 12% at the time of writing.
- The numbers include the impact of fully cash-covered dividends totalling 6.875p, in line with the target and those paid a year earlier. These equate to a historic yield of 8.6% as of 26/06/2025.
- SEI invests primarily in private debt, although the weight fell from 97% to 91% over the year. Some investments in public bonds were made to boost liquidity and sector diversification, while one private loan was refinanced publicly with SEI participating.
- There was a slight uptick in credit quality over the year, with the allocation to senior secured loans growing c. 1% from a year earlier. The weighted average maturity ticked down, as did the duration and the yield-to-maturity, but all were marginal moves with the broad positioning remaining the same. The tilt to fixed rate debt remains, rising to 59.9% from 58.6%, as the managers anticipate rate cuts in the months and years to come.
- SEI drew on its revolving credit facility to boost the size of the investment portfolio while continuing its buyback programme, and ended the year 4% geared.
- There was a write-down to NAV of 1.45p per share due to credit issues with non-performing loans. These totalled just 1% of NAV at year-end, the lowest since 2020.
- However, during the year the fund received a payment of £17m on its loan to Bulb Energy, and now expects to receive a full repayment, including capitalised interest, illustrating how non-performing loans can be managed to a good outcome over time.
- Board chair, James Stewart, said: “We operate in challenging times, but we believe that lending to infrastructure projects remains a robust, differentiated strategy that can deliver strong risk-adjusted returns for investors.”

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Kepler View

Sequoia Economic Infrastructure Income (SEI) has again delivered solid income performance, with high dividends in line with target and fully covered by cash earned from investments. While loans don't offer capital growth potential, SEI's portfolio has to be marked to market to reflect changes in interest rates over the lives of the loans, which means there is a baked in pull-to-par gain expected if its loans perform to maturity. This could see the NAV gain an additional 4p, which means that the c. 12% discount of the share price at the time of writing could be seen as even wider in effect.

We think the return of capital reported from the Bulb loan is an important piece of news during the year. Bulb Energy collapsed when wholesale energy prices skyrocketed after Russia invaded Ukraine. The outlook for recovery would have looked bleak at that time, but Sequoia have worked with their partners and the borrower to be in a position to expect full



recovery of capital and interest. This demonstrates how credit events don't have to lead to losses in the fullness of time. There is now only 1% of NAV held in non-performing loans, and there is the potential for these positions to be written up if the manager can achieve similar results.

SEQI's discount is contributing to the high yield on offer to new shareholders. However, the board remains committed to closing it, using a range of measures from buybacks through to greater marketing and transparency on the NAV. It has repurchased 13% of the share capital since July 2022 to that end which has added 1.8p to NAV per share. In our view, market conditions mean some discount is likely to remain until further rate cuts see investors tilt back away from government bonds or conventional corporate debt. We note that rate cuts are expected in the UK this year. In the meantime, the board has plenty of cash and debt facilities on hand to continue buybacks and to fund new investments as existing ones mature. Cash cover of the dividend fell slightly over the year from 1.06x to 1x. But with cash drag and timing of payments partly responsible, we don't think this is alarming.

Infrastructure debt remains an attractive place to invest, in our view. It involves lending against projects in digital infrastructure, data centres and the power grid and renewables as well as roads, ports and railways. By making private loans, SEQI is able to offer a high yield without the use of structural gearing, and from a short-dated portfolio with limited interest rate risk. We think the low NAV volatility along with the high yield and the sector biases of the portfolio make the trust a potentially attractive component of an income portfolio.

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