

Investment Companies Roundup

June 2015

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Winners and losers in May

A couple of obvious themes stand out in the list of best performing investment companies. Biotechnology is one, this is a continuation of a long-running theme as investors look for companies growing regardless of the economy. The other is UK smaller companies. This area shot up after the election, presumably on an end to worries about the possible impact of a hung parliament. Aseana announced it would move into realisation mode.

The list of poorly performing funds is, once again, dominated by those exposed to the commodities and natural resources sector. Brazil was also out of favour with investors and this hit both JPMorgan Brazil and BlackRock Latin American. Worries about growth and delays to elections hit the Thai market. Some investors are also worried that the Chinese market has risen too far too fast. The fall in the Pactolus NAV just reflects the weakness of the Hungarian Forint relative to Sterling.

Best performing funds in price terms in May:

| | (%) |
|------------------------------|-------|
| Invista European Real Estate | +16.0 |
| Aseana Properties | +15.4 |
| Oryx International Growth | +14.3 |
| Invesco Perpetual UK Smaller | +13.5 |
| Acorn Income | +13.4 |
| Henderson Smaller Companies | +13.4 |
| BlackRock Throgmorton | +12.7 |
| Schroder UK Mid Cap | +12.0 |
| Strategic Equity Capital | +11.8 |
| BlackRock Smaller Companies | +11.6 |

Worst performing funds in price terms in May:

| | (%) |
|---------------------------|-------|
| Alpha Pyrenees | -10.4 |
| Polo Resources | -9.6 |
| Origo Partners | -9.3 |
| Tiger Resource Finance | -8.6 |
| Dolphin Capital Investors | -7.2 |
| JPMorgan Chinese | -6.8 |
| Global Resources | -6.2 |
| Redefine International | -6.2 |
| Aberdeen New Thai | -5.8 |
| US Traded Life Interests | -5.7 |

Best performing funds in NAV terms in May:

| | (%) |
|-----------------------------|-------|
| Biotech Growth | +12.6 |
| British & American | +12.1 |
| International Biotechnology | +10.6 |
| Ottoman Fund | +9.7 |
| Aurora | +7.4 |
| Edinburgh Worldwide | +6.6 |
| Dunedin Smaller Companies | +6.5 |
| BlackRock Smaller Companies | +6.5 |
| Henderson Opportunities | +6.4 |
| City Natural Resources | +6.0 |

Worst performing funds in NAV terms in May:

| | (%) |
|--------------------------------|------|
| JPMorgan Brazil | -8.8 |
| Geiger Counter | -6.6 |
| BlackRock Commodities Income | -6.1 |
| BlackRock Latin American | -6.0 |
| Global Resources | -5.9 |
| Cambium Global Timberland | -5.9 |
| Aberdeen Latin American Income | -5.8 |
| Pactolus Hungarian Property | -5.0 |
| JPMorgan Russian | -5.0 |
| Aberdeen New Thai | -4.9 |

More expensive relative to NAV (notable changes)

The Board of Praetorian Resources outlined proposals to transform the trust into one focused on royalty income. Aseana, as mentioned above, plans to sell off its assets and return the proceeds to shareholders. The surge in Kennedy Wilson's rating may reflect the general appetite for property – it hiked its dividend during the month. The move in Oryx and Acorn may be down to the election result. Oryx has also been buying its stock back.

Cheaper relative to NAV (notable changes)

Redefine's shares fell as it went ex-dividend. There doesn't seem to be any news that might have triggered the share price move but the premium is still very large. We mentioned investors' nerves about the Chinese market and the general aversion to funds investing in the resources sector above. Gabelli's net asset value is not much changed since its launch in February but it must now be close to being fully invested.

| | % discount (-ve) or premium (+ve) | |
|---------------------------|-----------------------------------|------------|
| | 31 May (%) | 30 Apr (%) |
| Praetorian Resources | -41.2 | -56.1 |
| Aseana Properties | -17.9 | -31.0 |
| Kennedy Wilson Europe | +17.3 | +8.3 |
| Oryx International Growth | -17.9 | -26.5 |
| Acorn Income Fund | -4.6 | -13.2 |

| | % discount (-ve) or premium (+ve) | |
|------------------------|-----------------------------------|------------|
| | 31 May (%) | 30 Apr (%) |
| Redefine International | +46.6 | +57.4 |
| JPMorgan Chinese | -15.5 | -9.2 |
| City Natural Resources | -23.2 | -18.0 |
| Gabelli Value Plus+ | +3.1 | +8.1 |
| UK Commercial Property | +3.9 | +8.3 |

Money raised in May

Four new funds came to the market in May, raising around £680m between them. The largest was Toro Limited which will invest in asset backed and structured credit securities and comes from the same stable as Chenavari. Amedeo Air Four is the latest aircraft fund, is a sister fund to the three Doric Nimrod Air funds and will, like them, invest in A380s leased to Emirates. Ranger Direct Lending is another peer to peer debt fund. AEW UK REIT is targeting small commercial properties in the UK. Scottish Mortgage issued over £30m worth of new shares. Fair Oaks Income raised \$44.5m in a placing. Other notable issuers included Finsbury Growth & Income, Witan and Strategic Equity Capital.

Money returned in May

International Oil & Gas asked that its shares be delisted pending the sale of its largest investment. SVG Capital shrank by c£80m as it tendered for shares and continued its buy-back programme funded by recent sales of mature investments. Perhaps the surprise in the list of other funds buying back stock was Biotech Growth which bought back about £7m worth of shares as its discount widened temporarily beyond 10%. Other funds buying back their own stock in reasonable quantities included Templeton Emerging, Ashmore Global, JPMorgan American, Bluecrest All Blue, Foreign & Colonial and British Empire. All of which we reckon shrank by at least £3m.

May's major news stories – taken from our website

Portfolio Developments

GLI Finance invested in Funding Options
Nimrod Sea Assets acknowledged the impact of the weak oil price on its portfolio
Alliance Trust bought Stocktrade
International Public Partnerships invested in an offshore transmission project
SVG said New Look had been sold
Hg Capital invested in a visual effects company
Riverstone Energy invested in Carrier Energy II

Corporate News

Ukraine Opportunities is considering a change of investment policy and strategy
MedicX borrowed £50m from Standard Life
Shareholders in **John Laing Infrastructure** did not back one of its AGM resolutions
LXB Retail is planning to return a significant amount of money to shareholders
JZ Capital will borrow money rather than issue CULS to repay its Zero Dividend Preference Shares
RIT Capital issued fixed rate debt
Murray International borrowed £50m from RBS
Bankers issued £50m of 20 year fixed rate debt
Aseana plans to adopt a realisation strategy
Both **Martin Currie Pacific** and **Henderson Value Trust** will change their name to reflect strategy changes
Praetorian Resources unveiled plans to become a royalty finance company
Capital Gearing said it would adopt a zero discount policy



Property News

Tritax bought a distribution centre for New Look
Kennedy Wilson Europe bought debt secured against Pioneer Point in Ilford and a property in Madrid
Empiric Student Property bought accommodation blocks in Exeter, Manchester, Newcastle, Durham, Huddersfield, Lancaster and Leicester
JZ Capital bought another property in Williamsburg
Town Centre got planning permission for a development in Leeds and is building a clinic for the NHS.
Hansteen sold its stake in its Industrial Property Unit Trust
Green REIT bought an office in Cork
Highcroft bought a retail park in Wisbech
Schroder Real Estate bought a retail park in Bedford
Secure Property added assets in Romania and Bulgaria via a stock swap
SEGRO bought an Italian warehouse company

Managers & Fees

Aberforth Geared Income cut its base management fee
Aberforth Smaller Companies introduced a tiered management fee
TR Property made some minor changes to its base and performance fees
Capital Gearing said it would introduced a tiered fee



Green REIT's new office at One Albert Quay in Cork

Income

For anyone looking to keep track of their income, you can access a list of [recently announced dividends](#) on our website. These are in a spreadsheet that shows the amount, the record date (the day on which you have to be on the register to get paid the dividend) and the pay date. This is updated daily.

Notable announcements during May included Aberdeen Latin American Income warning that “current weak markets and global uncertainty” meant that they were keeping their level of dividend under review and Martin Currie Pacific saying “In future, shareholders cannot expect the same level of dividend increases as over the last five years partly because of the utilisation and consequent run down of revenue reserves and partly because of the new mandate investing in companies positioned for growth. Nevertheless, the board is cognisant of the importance of income to shareholders within the total return equation and will be exploring options to grow the level of dividend” which could be taken to mean that they might look to pay some dividends from capital returns in future. 3i Infrastructure's dividend policy was linked to the Company's opening NAV but the NAV shot up in its last financial year and the Board has decided to target a progressive annual dividend per share instead. They are targeting 7.25p for 2016, an increase of 3.6%.

The table below shows how investment companies' full year dividends have been growing (or not) and how well they are covered by earnings.

| Fund | Year ended | Dividend | Change over year | Revenue / earnings | Cover |
|-------------------------------|------------|------------|--------------------|------------------------|--------------------|
| Aberdeen Japan ¹ | 31/3/15 | 2.6 | -42.2% | 3.7 | 1.42x |
| Capital Gearing Trust | 5/4/15 | 20.0 | +25% | 26.8 | 1.34x |
| McKay Securities | 31/3/15 | 8.7 | +1.2% | 5.2 ² | 0.60x |
| TR Property | 31/3/15 | 7.7 | +3.4% | 8.9 | 1.15x |
| Caledonia | 31/3/15 | 50.6 | +3.1% ³ | 52.9 | 1.05x |
| Securities Trust of Scotland | 31/3/15 | 4.9 | +2.1% | 5.1 | 1.04x |
| Martin Currie Pacific | 31/3/15 | 7.5 | unchanged | 4.8 | 0.64x |
| Jupiter European Smaller Co.s | 31/3/15 | 3.2 | +10.3% | 3.4 | 1.08x |
| Sirius Real Estate | 31/3/15 | 1.61 cents | +437% ⁴ | 2.1 cents ⁵ | 1.30x |
| Terra Capital | 31/12/14 | 3.72 cents | +11.0% | 5.3 cents ⁶ | 1.42x |
| Land Securities | 31/3/15 | 31.85 | +3.7% | 37.4 ² | 1.17x |
| Big Yellow | 31/3/15 | 21.7 | +32.3% | 27.1 | 1.25x |
| Investors Capital | 31/3/15 | 4.48 | +2.5% | 3.9 | 0.88x |
| JPMorgan Income & Capital | 28/2/15 | 6.575 | +7.3% | 7.4 | 1.13x |
| New River Retail | 31/3/15 | 17 | +6.2% | 19.8 ² | 1.16x |
| 3i | 31/3/15 | 20 | unchanged | 72.9 ⁷ | 3.64x |
| British Land | 31/3/15 | 27.68 | +1.0% | 29.5 ² | 1.07x |
| 3i Infrastructure | 31/3/15 | 7 | +4.5% | 30.3 ⁸ | 4.33x |
| JZ Capital | 28/2/15 | 33.5 cents | +11.2% | 31.99 cents | 0.95x ⁹ |
| Scottish Mortgage | 31/3/15 | 2.93 | +1.0% | 2.2 | 0.75x |

Notes

- 1) Aberdeen Japan's dividend cut reflects its change of mandate (from pan Asia to Japan).
- 2) EPRA earnings per share
- 3) 48th year of annual dividend increases.
- 4) Last year's dividend of 0.30 euro cents was an initial period after launch.
- 5) Adjusted earnings per shares (to exclude property revaluation)
- 6) Terra Capital do not split out revenue and capital returns in their accounts. 5.3 cents is total earnings per share for 2014
- 7) 3i does not split out revenue and capital returns in their accounts. 72.9p is the fully diluted earnings per share
- 8) 3i Infrastructure does not split out revenue and capital returns in their accounts. 30.3p is the total earnings per share
- 9) JZ Capital targets dividends equivalent to 3% of net asset value

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