

## Third Quarter of 2015

### QuotedData news

This is our third quarterly report. Q3 2015 was a difficult one for many markets and was described as the worst quarter for global markets since 2011. China was the main source of worry on slowing growth.

### New research

In July we published an update on Strategic Equity Capital – **Measured Expansion on Strong Performance** – which described how the fund intended to issue shares gradually to meet demand created by the fund's excellent track record. We also published our annual review of Premier Energy & Water – **Three Years Later in a New League** – which covered the progress that James Smith has made with the trust since he took over as fund manager. In September we were delighted to publish our initiation note – **Focused on Quality** - on Edinburgh Dragon, the largest fund in the Asia ex Japan sector. Its manager thinks the fund could be poised for better performance if economic conditions normalise. Lastly we published an update note on, fund of hedge funds, Altin – **Extra Protection for Uncertain Times**. Its performance has been better than its peers for some time now. Its managers have chosen to add exposure to strategies designed to perform if markets fall sharply.

### In this issue

**Performance Data** – in weak markets, a few small trusts sorting out their problems shine

**Money in and out of the sector** – P2P Global dominates fund raising efforts

**Significant rating changes** – Juridica suffers as it loses a major case

**Major news stories** – Sherborne comes back for another go at Electra

**Income** – the highest yielding investment companies based on current year forecasts

### All investment companies average discount

Time period 01/10/2014 to 30/09/2015



Over the 12 months to the end of September 2015, the average discount across the whole of the investment company market moved within a range of 8.8% to 11.0% re has been a narrowing of discounts.

### Leasing average discount

Time period 30/06/2015 to 30/09/2015



The average premium of the leasing sector has reduced by 6.9% since end June as Nimrod Sea Assets moved to trade at a discount and the three Doric Nimrod Air funds traded on smaller premiums.

**More information about the funds mentioned in this report is available on our [website](#). If you are reading this online, there are links embedded in the document that will take you through to the relevant webpage.**

## Performance Data

There is little real pattern to the list of best performing funds in price terms in Figure 1 but, in NAV terms (Figure 2), you can see that UK smaller companies funds feature as do a couple of hedge funds. Vietnam also had a good quarter.

- **Industrial Multi Property** envisioned a future where it had restructured its debt, allowing it to resume dividend payments and this was enough to drive its share price sharply higher.
- **Trading Emissions** won an arbitration hearing, was awarded costs and may now find it easier to accelerate its liquidation
- Looking at two other funds in realisation mode, **Leaf Clean Energy** sold four investments but **Treveria** went one better and sold its whole portfolio.
- We are hard pressed to come up with reasons why **Infrastructure India, Reconstruction Capital's** share prices have risen over the period – there has been no news of consequence on either stock. The same is true of **Northern Investors** although its largest investment, Control Risks, is a beneficiary of greater political instability.
- **Duke Royalty** announced a tie-up with a management consultancy group, Oliver Wyman.
- **Oryx International Growth** has been performing well and has also been aggressively buying back stock to narrow its discount.
- **Tritax Big Box REIT** has had a busy quarter having raised extra capital and deployed it in a number of new warehouse developments. It also restructured its debt facilities.
- **TR Property** has been benefitting from a stronger Euro as well as rising prices of property stocks.
- **CatCo Reinsurance** is benefitting from a relatively benign global catastrophe environment. It is in the throes of raising extra capital, believing it can deploy more money at acceptable return rates.

Figure 1: Best performing funds in price terms in Q3

|                               | %      |
|-------------------------------|--------|
| Industrial Multi Property Ord | +107.4 |
| Trading Emissions             | +32.0  |
| Leaf Clean Energy             | +29.2  |
| Infrastructure India          | +23.8  |
| Reconstruction Capital II     | +22.9  |
| Treveria                      | +22.9  |
| Duke Royalty                  | +21.4  |
| Northern Investors            | +16.1  |
| Oryx International Growth     | +13.6  |
| Tritax Big Box REIT           | +13.1  |

Source: Morningstar

Figure 2: Best performing funds in NAV terms in Q3

|                             | %     |
|-----------------------------|-------|
| Chelverton Growth Trust     | +12.1 |
| BlueCrest BlueTrend GBP     | +8.7  |
| TR Property                 | +8.5  |
| North Atlantic Smaller Cos  | +8.1  |
| Oryx International Growth   | +7.7  |
| Vietnam Infrastructure      | +7.4  |
| CATCo Reinsurance Opps      | +7.4  |
| Standard Life UK Smaller Co | +7.1  |
| Boussard & Gavaudan EUR     | +7.1  |
| Reconstruction Capital II   | +6.7  |

Source: Morningstar

On the negative side, looking at Figures 3 and 4, weak demand in China and the bursting of a bubble in its domestic stock market poured more cold water on commodity markets and commodity exporting countries such as Brazil. It also had a knock-on effect on emerging market stocks generally. After a strong run, the biotech sector was hit by fears of price controls following some rather blatant price gouging by a couple of companies in that sector.

- **Ukraine Opportunity** has, like **Dragon Ukrainian Properties**, been hit quite badly by Russia's antics in the east of the country. Ukraine Opportunity has been mulling its future and decided to become a private company, triggering a dash for the exit by some investors.
- Highly geared property company, **Alpha Pyrenees**, saw its asset value wiped out.
- **Cambium Global Timberland** has been hit by falling demand for wood from, China and weak demand for wood to fuel iron smelting in Brazil.
- **JPMorgan Brazil** has to contend not only with a weak economy in that market but also corruption scandals circling the ruling political party.
- **Marwyn Value Investors** sold its largest investment, entertainment one, at a sizeable discount to the prevailing share price. This led to a fall in Marwyn's NAV but this also freed up a lot of cash, some of which is being returned to shareholders, so its discount narrowed.

**Figure 3: Worst performing funds in price terms in Q3**

|                             | %     |
|-----------------------------|-------|
| Ukraine Opportunity         | -77.6 |
| Alpha Pyrenees Trust        | -62.9 |
| Cambium Global Timberland   | -41.9 |
| Global Resources            | -41.4 |
| Origo Partners              | -37.6 |
| Kuala Innovations           | -35.5 |
| Baker Steel Resources       | -32.4 |
| Dragon Ukrainian Properties | -30.2 |
| JPMorgan Brazil             | -30.1 |
| Geiger Counter              | -29.7 |

Source: Morningstar

**Figure 4: Worst performing funds in NAV terms in Q3**

|                                | %     |
|--------------------------------|-------|
| JPMorgan Brazil                | -29.1 |
| Golden Prospect Precious Metal | -27.4 |
| BlackRock World Mining         | -27.2 |
| Geiger Counter                 | -25.4 |
| Marwyn Value Investors         | -23.1 |
| BlackRock Commodities Income   | -23.0 |
| Fidelity China Special Opps    | -22.3 |
| New City Energy                | -21.8 |
| Templeton Emerging Markets     | -21.4 |
| Biotech Growth                 | -19.7 |

Source: Morningstar

## Money in and out of the sector

Even though markets were more difficult in August and September, the investment companies sector still managed a significant net expansion in the quarter. There were two new issues that don't show up in the table, GLI Alternative Finance, which is the latest fund to launch in the rapidly expanding online lending subsector and focuses on lending to small and medium sized businesses, and Alternative Liquidity, which was a pre-existing unlisted fund whose aim is to turn holdings in illiquid investments into cash. It trades at a substantial discount to asset value. A number of funds continue to expand on an almost daily basis to meet demand. Scottish Mortgage, Finsbury Growth & Income and City of London all issued more than £35m worth of stock in the quarter, demonstrating their popularity with investors.

Figures 5 and 6 overleaf show money coming in and out of the sector over the quarter. The values shown are the market value of shares issued or bought back / delisted as at the end of September 2015.

**Figure 5: Funds entering the sector in Q3 2015**

|                                     | £m    |
|-------------------------------------|-------|
| P2P Global Investments              | 395.6 |
| UK Mortgages                        | 244.6 |
| The Renewables Infrastructure Group | 131.1 |
| JZ Capital                          | 112.2 |
| HICL Infrastructure                 | 81.2  |
| Menhaden Capital                    | 74.7  |
| Empiric Student Property            | 72.8  |
| Fair Oaks Income                    | 66.2  |
| Starwood European Real Estate       | 65.9  |
| John Laing Environmental            | 64.3  |

Source: Morningstar

**Figure 6: Funds leaving the sector in Q3 2015**

|                                     | £m    |
|-------------------------------------|-------|
| Pacific Alliance Asia Opportunities | 103.9 |
| Templeton Emerging Markets          | 31.5  |
| BlueCrest AllBlue                   | 26.8  |
| Boussard & Gavaudan                 | 23.3  |
| BH Macro                            | 22.5  |
| BH Global                           | 19.2  |
| Standard Life UK Smaller Companies  | 12.3  |
| NB Distressed Debt Extended Life    | 11.8  |
| Utilico Emerging Markets            | 11.6  |
| British Empire                      | 10.6  |

Source: Morningstar

## Coming in:

P2P Global is by far the largest of the online lending companies that have listed to date. In just over a year it has grown to be close to a £900m company. The high yields that the funds in this area are capable of paying should help keep them popular.

UK Mortgages is the latest fund to be launched by TwentyFour Asset Management. It invests in pools of mortgages that have been structured into vehicles with a tiered capital structure. UK Mortgages invests at the riskier end of these structures but earns a commensurately higher rate of return for doing so.

The Renewables Infrastructure Company and HICL Infrastructure are finding new projects to invest abroad, to counteract what they consider is a fairly frothy market for infrastructure projects in the UK. They had no trouble raising extra capital to fund these.

JZ Capital managed to raise money by offering stock to new investors at a considerable discount to net asset value – effectively transferring value from existing shareholders who didn't or couldn't take up the issue to incoming investors. Despite this strong incentive, they got less money than they had hoped for.

Menhaden Capital is a new fund from Ben Goldsmith, brother of Conservative mayoral candidate, Zac. It wants to promote sustainable, environmental and ethical policies and will invest in companies that fit that agenda.

Empiric Student Property is finding no shortage of new projects to invest in (as its management describe in our latest [political and economic roundup](#)).

Fair Oaks Income is keen to keep expanding. It recently made an investment in [a new CLO](#).

Starwood European Finance had a pipeline of potential new loan investments that it wanted to be able to fund and investors were happy to stump up the cash.

John Laing Environmental Assets and NextEnergy Solar (which falls just outside the table) managed to issue stock in the quarter despite the UK Government's tinkering with the subsidy regime for renewable energy – which looks set to severely curtail investment in large scale solar and onshore wind projects.

## Going out:

Pacific Alliance Asia Opportunities was investing via an unlisted Master Fund. It had been trading at a wide discount for some time so the Board proposed that the company be liquidated with shareholders being offered the chance of swapping their investment in the quoted fund for shares in an unlisted one with the same exposure or opting for cash.

Emerging markets have been out of favour with investors for some time now and China's woes haven't helped sentiment. As the largest fund in the sector, Templeton has suffered as investors have reduced exposure to the sector. This has also been a factor in the shrinkage of Utilico Emerging Markets.

Most hedge funds remain deeply unpopular with investors despite increasing market volatility, which should benefit a number of hedge fund strategies. BlueCrest AllBlue, Bousard & Gavaudan, BH Macro and BH Global have all been trying to stop their discounts widening by buying back shares on a regular basis.

Standard Life UK Smaller Companies tries to keep its discount within an acceptable range by buying back stock when necessary and it held a tender offer during the summer for 5% of its issued share capital.

NB Distressed Debt Extended Life's performance has been below the goal set out for the company when it was established and it is buying back shares.

British Empire's performance is in the bottom quartile of funds in its peer group over the past ten years. It has **just announced** a change of manager.

## Significant rating changes

Looking first at Figure 7, **Marwyn Value Investors** transformed itself with the sale of its largest investment, entertainment one (owners of Peppa Pig and a variety of film, tv and other rights). This freed up a lot of cash for the business which will facilitate a modest return of capital and this kept the share price strong even though, the entertainment one stake was placed at a significant discount to its prevailing share price, knocking Marwyn's NAV.

**Duke Royalty** kicked off its transition to a royalty business by announcing a tie-up with Oliver Wyman, a management consultancy group. Duke is still a very small business but investors seem to be embracing the idea.

We can't spot any reason why **Northern Investors** might be trading at so large a premium when most other private equity funds trade at big discounts. Its largest investment, Control Risks, is a beneficiary of global political instability however and there is no shortage of that at the moment.

**Leaf Clean Energy** is selling off its investments so that it can give money back to shareholders. During the quarter, it announced the sale of stakes in four businesses. **Treveria** went one better though and sold its entire portfolio. This fund will most likely wind up soon.

**Aurora**, which had a volatile record and had endured a period of poor performance, will get a new investment manager in the form of its largest shareholder, Phoenix Asset Management.

**Tritax Big Box REIT** has proved very popular with investors. It raised more money in the period, invested in a number of large warehouses for the likes of Howden Joinery and TK Maxx and restructured its debt facilities during the quarter.

**Gresham House** kicked off its transition to an asset management business by winning the investment mandate for Spark Ventures and selling off most of a development site it owned in Merseyside. We will probably stop covering this stock soon.

**Trading Emissions** won a case at the court of arbitration and was awarded costs. If it can get this element of its problems behind it, it could soon move to a full liquidation.

UK Smaller Companies funds have had a good run and **Aberforth Geared Income's** performance reflects this. This seems to be attracting new investors to the trust.

**Figure 7: More expensive relative to NAV - notable changes to discount (-ve) or premium (+ve)**

|                                | 30/06/15 | 30/09/15 |
|--------------------------------|----------|----------|
|                                | %        | %        |
| <b>Marwyn Value Investors</b>  | -27.0    | -8.4     |
| <b>Duke Royalty</b>            | -33.5    | -17.8    |
| <b>Northern Investors</b>      | -3.4     | +12.0    |
| <b>Leaf Clean Energy</b>       | -45.3    | -31.9    |
| <b>Treveria</b>                | -26.9    | -13.6    |
| <b>Aurora</b>                  | -13.3    | 0.0      |
| <b>Tritax Big Box REIT</b>     | -3.3     | +9.4     |
| <b>Gresham House</b>           | -7.9     | +3.8     |
| <b>Trading Emissions</b>       | -66.9    | -56.3    |
| <b>Aberforth Geared Income</b> | -16.5    | -6.4     |

Source: Morningstar

**Figure 8: Less expensive relative to NAV - notable changes to discount (-ve) or premium (+ve)**

|                                     | 30/06/15 | 30/09/15 |
|-------------------------------------|----------|----------|
|                                     | %        | %        |
| <b>Juridica</b>                     | +6.3     | -23.3    |
| <b>Nimrod Sea Assets</b>            | +0.3     | -26.4    |
| <b>Macau Property Opportunities</b> | -17.4    | -40.5    |
| <b>Tiso Blackstar</b>               | -19.2    | -39.8    |
| <b>Renewable Energy Generation</b>  | -24.7    | -44.1    |
| <b>Origo Partners</b>               | -40.8    | -71.3    |
| <b>Baker Steel Resources</b>        | -53.6    | -54.0    |
| <b>Cambium Global Timberland</b>    | -21.2    | -37.1    |
| <b>Vietnam Infrastructure</b>       | -16.2    | -31.1    |
| <b>Riverstone Energy</b>            | -1.9     | -16.0    |

Source: Morningstar

By contrast, looking at Figure 8, **Juridica** hit a major bump along the road as it lost a case that it had previously ascribed quite a high value to. This seems to have unnerved investors in the trust and caused the discount to widen.

**Nimrod Sea Assets** has been hit hard by the collapse of the oil price and more of its investments seem to be struggling to make payments to the company.

**Macau Property Opportunities** has been knocked sideways by the dramatic fall in gambling business in Macau. Most people ascribe this to a clamp down on corruption in China. The managers say China is urging Macau to diversify its economy but has eased restrictions on travel to Macau which may alleviate some of the problem.

South African fund, **Tiso Blackstar**, has been busy increasing its stake in two large investments, Times Media Group and Robor, and concluding a merger with another fund. It may be that investors are not yet convinced by this approach or worried about its more concentrated portfolio – it is probably too early to say.

**Renewable Energy Generation** was one of the stocks worst hit by the UK government's surprise slashing of subsidies to the renewable energy industry. It has written off a chunk of its portfolio and announced a sizeable redundancy programme in an effort to cut costs.

Four of the other funds, **Origo, Baker Steel, Cambium** and **Riverstone**, have all been hit by the ongoing malaise in the commodity market – linked to weak demand from China.

**Vietnam Infrastructure** split itself in two. This business is now more focused on private equity investments than it was and this may account for the widening of its discount over the period.

## Major news stories

### Portfolio developments

- **HICL** bought a stake in Southmead Hospital PFI and the new HQ for Canada's Mounties
- **SQN Asset Finance** funded a CHP plant attached to a tomato glasshouse
- **3I infrastructure** bought a North Sea rescue & response business and invested in an offshore transmission project
- Changes to the **Climate Change Levy** impacted renewable energy companies and revised solar subsidies unnerved investors
- **North Atlantic Smaller** sold its stake in Celsis
- **INPP** is a member of the consortium that will build the Thames Tideway project and will invest in schools in Victoria, Australia
- **Marwyn** sold part of its stake in entertainment One, added to Zegona and bought into Gloo Networks
- **Princess Private Equity** sold Universal Services
- **Candover** sold its stake in Fokker
- **BBGI** bought two schools projects
- **Electra** sold Nuaire and merged Park Resorts with Parkdean holidays
- **Leaf Clean Energy** sold four investments
- **Caledonia** sold TGE Marine
- **Better Capital** sold Fairline boats

### Corporate News

- **Invista European Real Estate** will sell its portfolio but there won't be anything left for shareholders
- **Kuala** will become an investor in intellectual property
- Gresham House took on the management of **Spark Ventures** and revised its investment strategy
- **Dexion Absolute** said a wind up could be triggered by a persistently wide discount and shut its Euro and Dollar share classes
- **Vietnam Infrastructure** split in two
- **Pacific Alliance Asia Opportunities** proposed it liquidate
- **Miton Worldwide Growth** proposed a realisation opportunity in 2018
- **Phaunos'** jv partner paid off the debt in one subsidiary
- **Ukraine Opportunities** will delist
- **Treveria** sold its portfolio and proposes to wind up
- **Qatar investment Fund** is proposing a graduated tender offer in advance of a discontinuation vote
- **Cayenne Trust** is offering a rollover into F&C Managed Portfolio
- Sherborne Investors requisitioned another EGM at **Electra**
- Phoenix Asset Management have been handed the management contract for **Aurora**
- **Renewable Energy** will take a restructuring charge after subsidy changes

- **Origo** proposed a restructuring and settled its Brooks MacDonald dispute

## Managers

- **Polar Capital Technology's** fee was cut
- **Templeton Emerging** appointed a new lead manager
- **JPMorgan Brazil** cut its fees
- **Fidelity Asian Values** cut its fees
- **Aberdeen UK Tracker** cut its fees
- Nicholas Price is the new manager of **Fidelity Japanese Values**
- **Henderson Smaller Companies** cut its management fees
- A new co-manager was appointed for **JPMorgan Global Emerging Markets Income**
- Aberdeen bought the manager of **Advance Developing** and **Advance Frontier Markets**
- Joe Bauernfreund will become lead manager of **British Empire**

## Income

This quarter we are publishing a list of the highest yielding investment companies based on forecast dividends. We are using Morningstar's figures for this. Figure 9 shows the list of highest yielding funds at the end of September 2015. We have tried to exclude from this list funds that are shrinking deliberately by handing back capital to shareholders.

**Figure 9: Highest yielding investment companies (data at 30/9/15)**

|                                 | Yield |
|---------------------------------|-------|
| Jupiter Dividend & Growth Trust | 19.2  |
| New City Energy                 | 17.4  |
| Carador Income Fund USD         | 13.4  |
| BlackRock Commodities Income    | 10.5  |
| BlackRock World Mining Trust    | 10.2  |
| Nimrod Sea Assets               | 10.2  |
| Ranger Direct Lending Fund      | 9.4   |
| Fair Oaks Income Fund           | 9.0   |
| Premier Energy and Water Ord    | 9.0   |
| British & American              | 8.9   |
| DP Aircraft I                   | 8.6   |
| Doric Nimrod Air One            | 8.5   |
| Amedeo Air Four Plus            | 8.5   |
| Doric Nimrod Air Two            | 8.0   |
| Blackstone/GSO Loan Financing   | 8.0   |
| JPMorgan Income & Capital       | 7.9   |
| Doric Nimrod Air Three          | 7.9   |
| Blue Planet Investment Trust    | 7.7   |
| Aberdeen Latin American Income  | 7.7   |
| CQS New City High Yield         | 7.6   |

Source: Morningstar



Jupiter Dividend & Growth is a split capital company that will wind up in November 2017. The way its structure works (it has a combination of ordinary income shares, common shares and zero dividend preference shares), its ordinary income shares have almost no net asset value right now but are entitled to a disproportionate share of the income generated by the company. M&G High Income is a similar story. Here we show the forecast yield on its income and growth units (comprising an income share and a capital share). JPMorgan Income & Capital is also a split capital fund.

New City Energy invests in companies involved in exploration, development and production of energy, and related service companies. The fall in the oil price and other commodities has hit it hard. To date though it has managed to maintain its dividend, hence its high yield. BlackRock Commodities Income and BlackRock World Mining have been similarly affected though in Commodities Income's case its share price decline has been less dramatic.

Carador Income invests in the lower tranches of CLOs (see our website for a detailed explanation). Its investment style leads it to earn quite a bit of income but this is often offset by capital losses, reducing the overall return that investors earn. Fair Oaks Income and Blackstone / GSO Loan Financing are similar funds.

Nimrod Sea Assets is a leasing fund that owns a range of oil service vessels. The collapse in the oil price has hit the company. This table uses Morningstar's yield estimates. The company said in June that it will pay quarterly dividends of 2 cents a share until March 2016 when they will take a look at how the fund is doing and "revisit" the dividend.

Ranger Direct Lending is a relatively new investment company investing in loans originated on online platforms. We believe Morningstar have based this yields on a forecast made in its prospectus that assumed the fund was fully invested but, at the end of August, it had deployed just 42% of the proceeds of its share issue.

Premier Energy & Water is another split capital trust. Its yield includes special dividends that it has been paying on a regular basis to run down its revenue reserve. It has said the last of these will be paid alongside its final dividend in March 2016. Even excluding the special dividends, it would have been on a 6.9% yield at the end of September. You can read more about this in [our latest research report](#) on the company.

British American's ordinary shareholders benefit from the presence of a convertible security in its capital structure which boosts the dividend but makes its net asset value more volatile.

DP Aircraft, the three Doric Nimrod funds and Amedeo Air Four Plus are leasing planes. It is hard to tell what the resale value of these planes will be when the leases come to the end of their life. This resale value will have a big impact on their final net asset values and will determine whether these funds generate capital growth or losses.

Blue Planet is a small investment trust trying to generate a combination of capital growth and income for its shareholders. Its yield is boosted by its wide discount, currently 23%.

Aberdeen Latin American Income has been bedevilled by weak markets in Latin America as a combination of weak commodity prices and political scandals and ineptitude take their toll on the region. It has said it will rebase its dividend to 3.5p from 4.25p when it announces its results later in October which would have put it on a 6.9% yield at the end of September.

CQS New City High Yield aims to provide investors with a high dividend yield and the potential for capital growth by investing mainly in high yielding fixed interest securities. It invests predominantly in fixed income securities, including preference shares, loan stocks, corporate bonds and government stocks

# QuotedData

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