QuotedData

Annual report | Investment Companies

January 2016

2015 review of the year

QuotedData news

QuotedData is two years old, still expanding and evolving as we strive to produce research that is useful and interesting for our readers. This year we thought we'd produce a review of 2015. This contains all the sorts of information we'd normally include in our quarterly reports plus some extra stuff that normally just features in our monthly roundup of economic and political forecasts by experts in the sector. We hope you enjoy reading it.

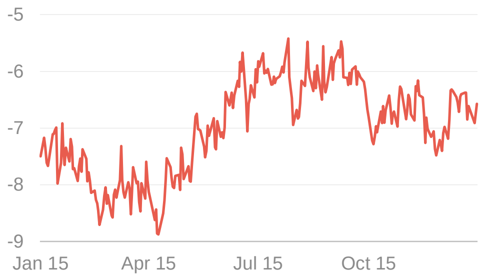
Research published in 2015

Our investment company sponsored research client list is growing. Over the past three months we have published a note on Henderson Global Trust – **Searching for change** – this described how the fund's manager builds a portfolio of companies that he believes will benefit from changing circumstances yet the benefit of this change is underappreciated by other investors. We looked at three trusts managed by Fidelity – Fidelity Special Values, Fidelity Asian Values and Fidelity Japanese Values – these were bundled together in a report called **Fidelity – Changes!** We focused in particular on the impact that Nitin Bajaj, the new manager of Fidelity Asian Vales, is having on that fund. We published a note on Seneca Global Income & Growth – **Low volatility and growing income** – looking at how this multi-asset fund is delivering outperformance of its benchmark and competitors with markedly lower volatility. Our note on GLI Alternative Finance – **Off and running** – explained how that fund fits into the burgeoning online finance sub-sector and described how it had moved quickly to being fully invested and paying dividends.

Over the course of 2015 we also published notes on **Altin, Edinburgh Dragon, Premier Energy & Water** and **Strategic Equity Capital.** There is plenty to come in Q1 2016 too. We are also launching coverage of the Mining sector and looking to expand into new equity sectors when we find the right analysts. Please visit the QuotedData website to update your preferences if you'd like to receive our mining research.

Investment companies sector median discount

Time period 01/1/2015 to 31/12/2015

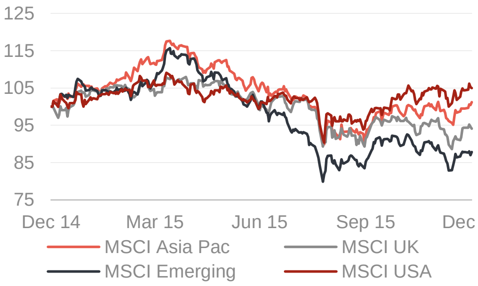


Source: Morningstar, Marten & Co

Exchange Rate	31/12/15	Chg. on year
USD / GBP	1.4736	-5.5%
USD / EUR	0.9210	+11.5%
USD / JPY	120.22	+0.4%
USD / CHF	1.0021	+0.8%
USD / CNY	6.4937	+4.6%

MSCI Indices rebased to 100

Time period 01/01/15 to 31/12/15



Source: Bloomberg and Marten & Co. Figs in GBP

	31/12/15	Chg. on year
Oil (Brent)	37.28	-35.0%
Gold	1061.1	-10.2%
US Tsy 10 yr yield	2.269	+4.5%
UK Gilt 10 yr yield	1.960	+11.6%
Bund 10 yr yield	0.629	+16.3%

In this issue

Performance Data

The figures in the graphs and tables on the front page tell a story of a dramatic fall in oil prices, no let-up in the falling gold price, rising government bond yields (as the US took its first steps to reverse the easy money policies of the last decade with a quarter point interest rate rise), a strengthening US dollar and weak Euro (a trend that partially reversed in December) and weak stock markets (notably in emerging markets).

Against that though, the median discount for the whole investment companies sector narrowed and, as you will see in the next section, it seems as though investors are still willing to pour money into funds they like and back new investment companies.

Figure 1 shows the best and worst performing sectors and stocks in each sector (in price terms) over 2015. European Smaller Companies did very well in 2015 with a median return of 32.4% and even the worst performing fund in the sector, European Assets, delivering a return of 20.3%. It may be the supportive policies of central bankers in Europe and Japan that helped those sectors to dominate the top of the table. UK smaller companies funds also did well, particularly after the election. It seems likely that investors, nervous of a hung parliament, had reduced exposure to the sector but their enthusiasm was renewed by a decisive Conservative victory.

At the other end of the table, funds specialising in commodity and natural resources suffered another year of very poor performance as there was no respite from weak commodity prices, this had a knock-on effect on many emerging markets too. European property funds also did badly. This is more a reflection of the fact that many of these funds took on too much debt during the credit boom and are suffering now than any particular weakness in their underlying markets.

Figure 1: Best and worst performers by sector in price terms over 2015

Sector	Best performing Fund	change %	Sector median. %	Worst performing Fund	change %
European Small. Co.s	JPMorgan European Smaller	+44.0	**+32.4**	European Assets	+20.3
UK Smaller Co.s	SVM UK Emerging	+47.9	**+25.3**	Chelverton Growth Trust	+7.8
Japan	JPMorgan Japanese	+27.3	**+23.3**	Schroder Japan Growth	+4.2
Japan Smaller Co.s	Bailie Gifford Shin Nippon	+49.9	**+20.5**	Prospect Japan	+15.4
Europe	Jupiter European Opp.s	+28.7	**+14.3**	European Investment	-3.7
UK Property	Industrial Multi Property	+105.7	**+13.7**	UK Commercial Property	+0.8
Biotech / Healthcare	International Biotechnology	+22.2	**+11.5**	Polar Capital Global Healthcare	+4.0
Leasing	Doric Nimrod Air Two	+13.1	**+10.5**	Nimrod Sea Assets	-47.0
UK Income & Growth	Small Companies Dividend	+29.4	**+6.0**	Shires Income	-11.3
UK	JPMorgan Mid Cap.	+42.4	**+5.9**	Artemis Alpha	-13.2
Renewables	NextEnergy Solar	+6.4	**+4.9**	Foresight Solar	+3.3
Infrastructure	Infrastructure India	+48.0	**+4.7**	Vietnam Infrastructure	-13.6
Global	Lindsell Train	+54.3	**+4.2**	Hansa Trust	-11.4
Private Equity	Reconstruction Capital II	+49.6	**+3.7**	St. Peter Port Capital	-54.3
Global Equity Income	Seneca Global Inc. & Growth	+11.0	**+1.7**	Murray International	-15.2
Hedge	Boussard & Gavaudan GBP	+10.3	**+0.5**	Global Fixed Income Realisation	-37.1
Debt	Real Estate Credit Inv.s	+13.1	**-2.7**	NB Distressed Debt New Global	-27.8
Asia ex Japan	Fidelity Asian Values	+4.6	**-5.7**	Aberdeen Asian Smaller Co.s	-17.3
Global Emerging	Ashmore Global Opp.s USD	+0.7	**-10.7**	Templeton Emerging Markets	-24.0
European Property	AXA Property	+27.9	**-21.6**	Alpha Pyrenees	-94.6
Natural Resources	Riverstone Energy	-8.9	**-33.0**	Global Resources Inv. Trust	-73.4

Source: Marten & Co, Morningstar

The list of best performing funds in price terms shown in Figure 2 contains a number of funds that had suffered in earlier years and staged a recovery in 2015. The list of best performing funds in NAV terms, shown in Figure 3, confirms a bias towards smaller companies funds invested in Japan, Europe and the UK.

Figure 2: Best performing funds in price terms in 2015

	%
Industrial Multi Property Fund	+105.7
Lindsell Train	+54.3
Alpha Real Trust	+52.9
Baillie Gifford Shin Nippon	+49.9
Reconstruction Capital II	+49.6
Infrastructure India	+48.0
SVM UK Emerging	+47.9
JPMorgan European Smaller Companies	+44.0
JPMorgan Mid Cap	+42.5
Oryx International Growth	+42.3

Source: Morningstar

Figure 3: Best performing funds in NAV terms in 2015

	%
Baillie Gifford Shin Nippon	+42.2
JPMorgan European Smaller Companies	+32.1
Independent Investment Trust	+30.9
Standard Life UK Smaller Companies	+29.4
CATCO Reinsurance Opportunities	+28.6
Oryx International Growth	+28.0
SVM UK Emerging	+27.7
Montanaro European Smaller Co.s	+27.7
Small Companies Dividend	+26.7
JPMorgan Japan Smaller Companies	+25.5

Source: Morningstar

- **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. This fund is held within **Alpha Real Trust**'s property portfolio (number three on the list).
- **Lindsell Train** is doing well, partly because it owns a slug of its management company and this is seeing an influx of new money to manage. The trust is now on a very high premium however.
- **Baillie Gifford Shin Nippon** is losing its fund manager but remains positive on the outlook for its portfolio. The tentative revival in the Japanese economy is helping other smaller companies funds focused on the area such as **JPMorgan Japanese Smaller**
- **Reconstruction Capital II** and **Infrastructure India** are both funds that were trading on wide discounts and now trade at narrower but still significant discounts. Their underlying investments (Romanian private equity and infrastructure and logistics projects in India respectively) are illiquid.
- Funds investing in UK medium and smaller sized companies, which includes **Oryx International Growth** in these lists, benefitted when the Conservatives won the election with a clear majority – the market had been fearing a hung parliament.
- **Independent Investment Trust** made a big bet on the UK housebuilding sector that paid off.
- European smaller companies funds, such as those managed by JPMorgan and Montanaro, have been beneficiaries of the supportive stance taken by the European Central Bank.
- **CATCO Reinsurance Opportunities** managed to avoid exposure to any significant insured disaster.

Figure 4: Worst performing funds in price terms in Q3

	%
Alpha Pyrenees	-94.6
Origo Partners	-75.5
Global Resources Investment Trust	-73.4
Cambium Global Timberland	-71.5
Juridica	-62.8
Ottoman Fund	-61.1
St Peter Port Capital	-54.3
Baker Steel Resources	-53.0
Dolphin Capital Investors	-47.8
Nimrod Sea Assets	-47.7

Source: Marten & Co, Morningstar

Figure 5: Worst performing funds in NAV terms in 2015

	%
Ottoman Fund	-64.5
Aurora Russia	-52.2
Cambium Global Timberland	-51.3
St Peter Port Capital	-38.2
JPMorgan Brazil	-37.9
RAB Special Situations	-37.1
Candover Investments	-36.1
BlackRock World Mining	-35.3
BlackRock Commodities Income	-32.2
Geiger Counter	-31.9

Source: Marten & Co, Morningstar

On the negative side, looking at Figures 4 and 5, the story is almost all about the continuing weakness in commodity prices. This is having an adverse effect on economies that are heavily exposed to this area such as Russia and Brazil. The main problem is weak demand in China. This is also affecting the demand for timber. Looking first though at the exceptions:

- **Alpha Pyrenees** admitted that the value of its European property portfolio which it has been selling off was probably not sufficient to allow it repay all its debt. It now has a negative NAV.
- **Ottoman Fund** is a Turkish property company in the throes of winding itself up. It alleges that it has suffered a fraud at the hands of its local CFO.
- **Juridica,** which finance court cases in exchange for a share of damages, lost a couple of cases it had been expecting to win resulting in big write downs in its NAV.
- After a turbulent history, **Aurora Russia** sold the last of its investments and is now in liquidation.
- Greece's woes were a factor in a falling share price for **Dolphin Capital Investors** which owns swathes of beach front land in the country. A dilutive equity raise didn't help either.
- **Nimrod Sea Assets** is a casualty of the collapse in the oil price as its offshore oil service vessels weren't much in demand.

Everything else in the list is also there because of weak commodity and oil prices.

- **Global Resources** had a problem with its convertible loan stock as its falling NAV breached a covenant. Convertible holders agreed to amend the offending covenant.
- **St Peter Port Capital** and **Candover** both had significant exposure to the sector.
- **JPMorgan Brazil** doesn't have much exposure to the sector but Brazil does. A corrupt and inept government and the downgrading of its debt to junk status didn't help either.

Money in and out of the sector

New issues

2015 was a very good year for fund raising. Figure 6 lists the 25 new investment companies that were launched in 2015. £3.3bn of new money was raised from investors for these funds at launch. What is even more impressive is how many of those funds came back again for more money later in the year. Looking at the notes that follow the table, these funds expanded by more than £440m.

Figure 6: New fund launches

Fund	Launch	Issue size £m	Premium / (Discount) 31/12/15	Investment Focus
Gabelli Value Plus+	February	100.1	-1.3	US equity, value with a catalyst
Sequoia Economic Infrastructure	March	150.0[a]	+8.0	Infrastructure debt
VPC Speciality Lending	March	200.0[b]	-6.9	Online lending
Woodford Patient Capital	April	800.0[c]	+3.7	UK quoted and unquoted, early stage bias
Miton UK Microcap	April	50.0[d]	+4.8	UK equity, sub £150m market cap.
Fondul Proprietatea	April	0.0[e]	n/c	Romanian companies
Ranger Direct Lending	May	135.0[f]	+0.3	Online lending
Toro	May	250.7	-6.3	Asset backed securities and other structured credit
AEW UK REIT	May	100.5	+6.3	UK property, smaller commercial properties
Amedeo Air Four Plus	May	202.0[g]	-0.8	Leasing A380s to Emirates
Drum Income Plus REIT	May	50.0	+9.0	UK commercial property
Apax Global Alpha	June	217.0[h]	-11.6	Private equity through Apax's funds
Phoenix Spree Deutschland	June	105.0	-2.4	German residential property
K&C REIT	July	3.6	n/c	Central London residential property
UK Mortgages	July	244.6	+3.3	Residential mortgage backed securities
Menhaden Capital	July	74.7	-5.4	Environmental equities
Alternative Liquidity	September	0.0[i]	-86.7	Illiquid assets
GLI Alternative Finance	September	52.7	+2.4	Online lending
Project Finance Investments	October	106.0	+6.4	Project finance
Regional REIT	November	0.0[j]	n/c	UK office and commercial property in regions
Axiom European Debt Finance	November	50.7	+3.6	EU bank capital
Funding Circle SME Income	November	150.0	+3.7	Online lending
CC Japan Income	December	66.5	+3.7	Japanese equity income
Schroder European Real Estate	December	107.5	+12.2	Continental European real estate
Honeycomb	December	100.0	+3.4	Online lending

Source: Morningstar, Marten & Co

Notes:

a) Sequoia Economic Infrastructure raised a further £150m later in the year through a C share issue.

b) VPC Speciality Lending raised a further £200m later in the year through a C share issue.

c) Woodfod Patient Capital used tap issues to issue an additional 27m shares later in the year.

d) Miton UK MicroCap expanded by a further 10% by issuing shares in the secondary market.

e) Fondul Proprietatea was a pre-existing fund that listed in London.

f) Ranger Direct Lending issued a further £14.1m worth of shares to Invesco in December 2015.

g) Amedeo Air Four Plus issued another £47m worth of shares in December 2015 to buy another A380 and plans to do the same early in 2016.

h) Apax Global Alpha was a pre-existing unquoted fund. The £217m represents the additional money it raised when it listed.

i) Alternative Liquidity was a pre-existing unquoted fund.

j) Regional REIT was a pre-existing unquoted fund.

The biggest new issue of the year, and the largest ever, was Woodford Patient Capital. It was encouraging to see investors excited about a trust that isn't an income fund and where returns will be generated over the long-term.

Toro, the next largest, has a complex investment policy and states that it is not suitable for retail investors (it invests in asset backed securities and structured credit). It moved to a discount fairly soon after launch.

Amedeo Air Four is the latest fund (after the three Doric Nimrod funds) to be buying A380s that it then leases to Emirates. These funds pay out fairly high yields but the residual capital value of the planes at the end of the lease will play a big part in determining how successful these funds are for investors.

A fair few of the other issues fall into the burgeoning online lending sub-category of the Debt sector. These funds invest in loans through online lending platforms. For investors that might have been contemplating investing directly, through one or more of these platforms, the funds take the hassle out of researching, monitoring and reinvesting money on a timely basis and can give investors greater diversification than they might have otherwise achieved.

A few funds in the list are now trading on meaningful discounts. There may be some indigestion in the Debt sector as so many funds launched here over the year. Historically though, debt funds have been underrepresented in the investment company industry relative to the open-ended world and the significant expansion of the last couple of years is just starting to address the balance. Debt funds account for 14.0% of the open-ended market – according to figures published by the Investment association as at the end of November 2015 and, at the end of December, debt funds were 5.8% of the closed-end fund / investment company market. Alternative Liquidity's discount sticks out. Its original investors swapped highly illiquid investments for shares in the fund as a way of turning some or all of their investments into cash.

Liquidations, de-listings and trading cancellations

One of the sectors that shrank the most over 2015 was the Hedge fund sector. Funds we lost here included BlackRock Hedge Selector, CQS Diversified, Lyxor Focus Fund and BlueCrest BlueTrend. Towards the end of 2015, BlueCrest decided to return all external funds and so plans to wind up BlueCrest AllBlue as well.

PXP Vietnam tried to raise additional capital through a C share but the timing proved unfortunate as it coincided with a flare up in tensions between Vietnam and China. This spooked the Vietnamese stock market. Subsequently, PXP Vietnam opted to become an open-ended fund.

Pacific Alliance Asia Opportunities was trading at a persistently wide discount. Its Board proposed that the fund be liquidated with shareholders being given the option to rollover into an underlying unquoted fund.

Cayenne was wound up and its shareholders were offered a rollover into F&C Managed Portfolio.

Altus Resource Gold decided to wind itself up after a losing a continuation vote at the end of 2014.

Treveria sold the last of its assets and returned the cash to shareholders. The shell of the company became Glenwick, a resources focused investment company.

ARC Capital Holdings saw its admission to trading on AIM cancelled when it failed to find a new NOMAD.

Ukraine Opportunities cancelled its listing in November.

Japan Residential Investment Company was bid for in November at a significant premium to its share price and delisted at the end of December. Renewable Energy Group received a bid for all of its assets and its shares ceased to trade on 5 January 2016.

International Oil & Gas was delisted as it sold off its last investment. Invista European Real Estate and Invesco Property Income, two property companies that had been struggling with too much debt, both appointed liquidators in December.

Money in and out of existing funds

The sheer volume of funds raised by existing funds through C shares, placings, open offers and tap issues during 2015 was impressive. There are some themes behind the numbers in Figure 7. One is the continuing popularity of Infrastructure funds, such as International Public Partnerships and HICL Infrastructure, and Renewable Infrastructure funds, evidenced by Renewables Infrastructure's place at the top of the table but also significant amounts raised for funds such as NextEnergy Solar and Foresight Solar. The continued expansion of the Renewables sector was even more impressive given the subsidy cuts imposed by the UK Government in the summer. Within the Debt sector, P2P Global's C share issue stands out as the online lending sector continued to grow. Property funds and REITS were popular and the Leasing sector expanded with a C share for SQN Asset Finance coming on top of the launch and C share of Amedeo Air Four mentioned in the section above.

Figure 7: Money raised (31/12/15 values)

Fund	£m
Renewables Infrastructure	324.7
P2P Global Investments	269.4
Tritax BigBox REIT	268.9
Empiric Student Property	266.7
International Public Partnerships	222.4
Scottish Mortgage	193.7
SQN Asset Finance	184.1
HICL Infrastructure	148.2
Finsbury Growth & Income	139.7

Source: Marten & Co, Morningstar

Figure 8: Money returned (31/12/15 values)

Fund	£m
SVG Capital	164.8
Alliance Trust	143.3
BH Macro	115.2
Templeton Emerging	70.6
Acencia Debt Strategies	57.8
BlueCrest All Blue	47.7
BH Global	46.0
NB Global Floating Rate	43.5
Mercantile	41.7

Source: Marten & Co, Morningstar

All the aforementioned sectors try to offer investors reasonably high levels of yield derived from assets other than equities and this has been the sweet spot for the expansion of the investment company universe for some time now. This makes the almost £200m worth of shares by Scottish Mortgage and the £140m worth of shares issued by Finsbury Growth and Income, in both cases through regular, almost daily, tap issues of shares, all the more welcome.

SVG Capital remains committed to returning funds to investors alongside making commitments to new investments. The sale of a number of its largest underlying investments including Iglo, New Look and Hugo Boss, helped fund numerous buy backs as well as tender offers.

Alliance Trust was under pressure from shareholders, including activist Elliot Advisors, to take action to improve performance, cut costs and narrow its discount. Alliance Trust has embarked on a large buy-back programme that has helped its discount narrow from levels over 14% early in 2015 to c8% today.

Investors' rejection of the Hedge Fund sector is reflected in the significant shrinkage of funds such as BH Macro, BH Global, Acencia Debt Strategies, BlueCrest All Blue and, falling just outside this list, Boussard & Gavaudan and Dexion Absolute.

Emerging Markets are also out of favour, hence Templeton's large buy-back. Further down the list, Ashmore Global returned more money to its shareholders, Qatar Investment Fund shrank through a tender and share repurchases and Fidelity China bought back shares worth close to £20m.

While, for the most part, the Debt sector was booming, NB Global Floating Rate and NB Distressed Debt were trading on discounts and shrinking.

The real surprise on this list is probably Mercantile. This was one of the best performing UK funds over the course of 2015. Its discount did narrow over the course of the year but, relative to its peer group, it remains about middle of the pack.

Significant rating changes

Sector by sector changes

Figure 9: Biggest changes in discounts and premiums by sector over 2015

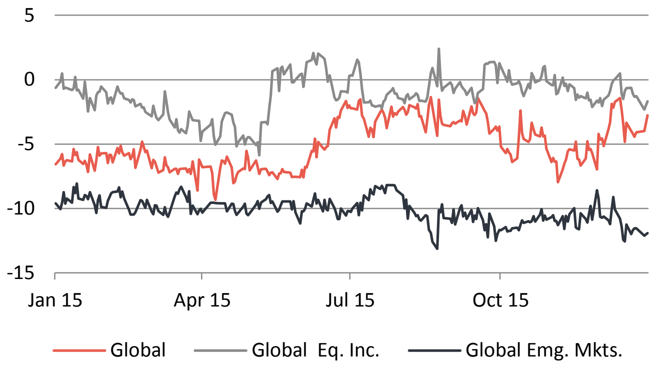
Sector	Rating improvement Fund	change %	Sector median. %	Rating deterioration Fund	change %
European Property	Taliesin Property	+32.5	**+13.4**	Globalworth Real Estate	-28.8
UK Smaller Co.s	Athelney Trust	+15.7	**+8.1**	Chelverton Growth	-5.2
European Small. Co.s	JPMorgan European Sm.	+7.8	**+6.5**	European Assets	-0.3
Japan Smaller Co.s	Prospect Japan	+6.7	**+2.9**	Fidelity Japanese Values	-0.8
UK	JPMorgan Mid Cap.	+13.0	**+2.9**	Artemis Alpha	-7.3
Global	Lindsell Train	+26.5	**+2.9**	Hansa Trust	-7.2
Europe	JPMorgan European Inc.	+4.5	**+2.7**	European Investment Trust	-1.6
Renewables	John Laing Environmental	+1.2	**+0.1**	Bluefield Solar Income	-0.3
UK Property	Industrial Multi Property	+23.5	**-0.2**	F&C Commercial Property	-9.9
Global Equity Income	BlackRock Inc. Strategies	+5.2	**-0.8**	Murray International	-8.4
Hedge	Acencia Debt Strategies	+4.4	**-1.3**	Third Point Offshore GBP	-11.8
UK Income & Growth	British & American	+8.5	**-1.7**	Shires Income	-12.0
Asia ex Japan	Pacific Assets	+0.1	**-1.7**	Aberdeen Asian Smaller	-8.0
Private Equity	Aurora Russia	+62.7	**-2.0**	Origo Partners	-48.8
Global Emerging	Ashmore Global Opp. GBP	+3.5	**-2.5**	Africa Opportunity C	-20.6
Debt	Fair Oaks Income Fund	+4.0	**-2.7**	P2P Global Investments	-18.2
Infrastructure	Infrastructure India	+9.0	**-2.8**	Vietnam Infrastructure	-11.5
Japan	JPMorgan Japanese	+1.7	**-3.6**	Aberdeen Japan	-11.5
Biotech / Healthcare	International Biotechnology	-0.9	**-4.2**	Biotech Growth	-5.6
Leasing	Doric Nimrod Air Three	+14.1	**-6.1**	Nimrod Sea Assets	-43.6
Natural Resources	City Natural Resources	+4.6	**-12.2**	Baker Steel Resources	-32.3

Source: Marten & Co, Morningstar

Figure 9 shows how the discount / premium of the major sectors changed over the course of 2015. The positive move in the median European Property discount masks a wide range of rating changes. The UK, European and Japanese smaller company trust rating improvements might suggest investors have been buying those funds on the back of their decent performance this year. Conversely, investors seem to be growing more despondent about the natural resources sector.

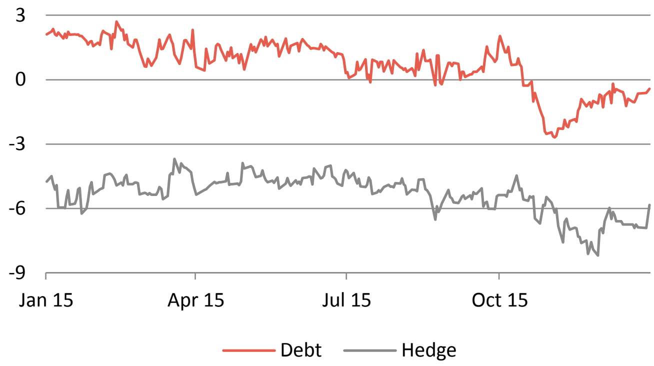
The graph on the front page showed how the median discount for all investment companies narrowed a little over the year from 7.5% to 6.6%. Looking at some of the major sectors of the market, Figure 10 shows how Global, Global Equity Income and Global Emerging Markets funds fared. It comes as little surprise that those focused on growth and income have broadly traded on the tightest median discounts reflecting investors' ongoing thirst for yield in a low interest rate world. The median discount for funds focused on Global Emerging Markets has seen a gradual widening during the year, which arguably reflects the continuing deterioration in sentiment towards these regions as the year progressed. However, mainstream global trusts have seen their median discount narrow, arguably a consequence of an improving outlook in the US (a major component of the major global indices and therefore these funds' portfolios) and other developed markets.

Figure 10: Changes to median discount - Global



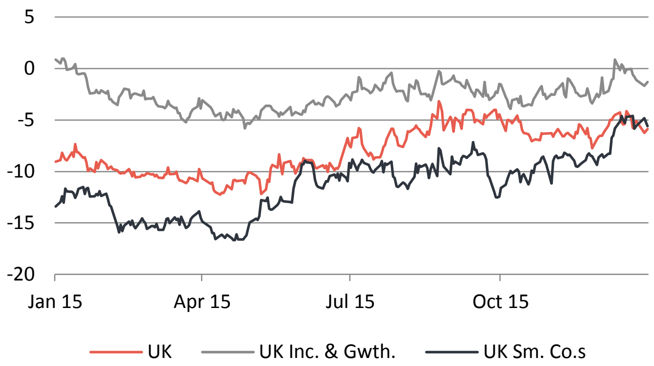
Source: Marten & Co, Morningstar

Figure 11: Changes to median disc. – Debt and Hedge



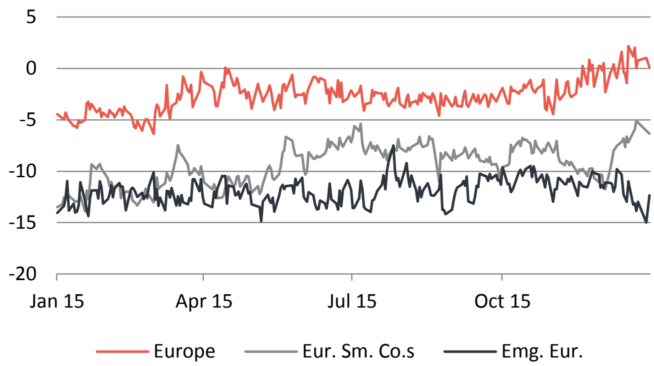
Source: Marten & Co, Morningstar

Figure 12: Changes to median discount - UK



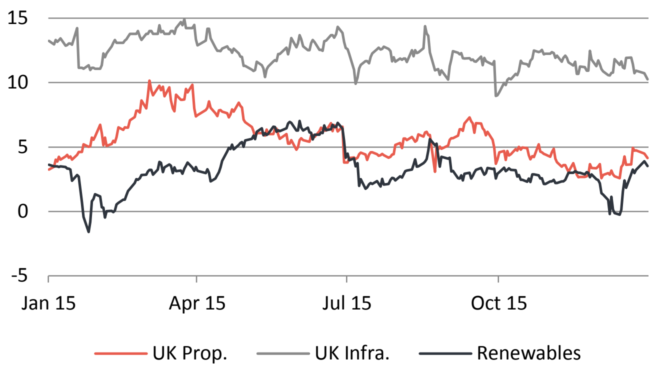
Source: Marten & Co, Morningstar

Figure 13: Changes to median discount - Europe



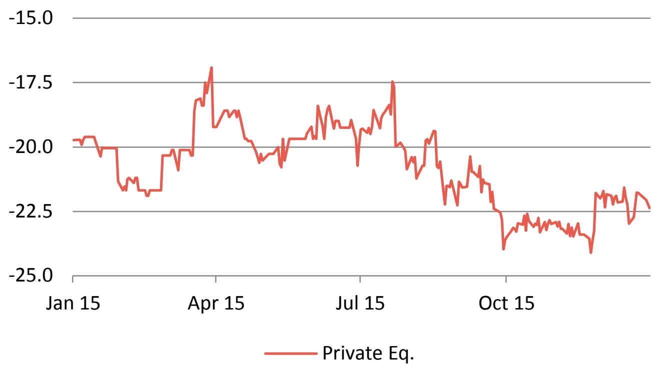
Source: Marten & Co, Morningstar

Figure 14: Changes to median discount – Property, UK Infrastructure and Renewable Infrastructure



Source: Marten & Co, Morningstar

Figure 15: Changes to median discount – Private Equity



Source: Marten & Co, Morningstar

The Debt sector has moved from trading at a median 2% premium to a 1% discount over the year (as illustrated in Figure 11). A sharp lurch from premium to discount is apparent in the fourth quarter although this partially reversed during the remainder of the period. Debt as an asset class is sensitive to interest rate moves and the prospect thereof and so the increasing prospect of rises is likely to have made a contribution. However, the sector includes funds focused on online lending, which have moved from premium rating to discounts over the period. This has arguably reflected a number of developments within this particular space but a notable issue has been investor concern about the high profile failure of TrustBuddy, which was Europe's only listed online lending platform.

Looking at Figure 12, the median discounts of the differing classes of UK trusts all followed a similar pattern of widening in the run up to May's general election, reflecting heightened uncertainty. This was subsequently followed by a period of narrowing once a Conservative victory had been confirmed, which was generally considered to be the preferred outcome for UK businesses. This shift is most apparent for UK smaller companies whose median discount moved from approximately 14% to 5% during the year. This arguably reflects a gradually improving outlook for the UK economy although this brings the prospect of interest rates rises, already seen in the US, closer. This may explain why the median UK income and growth discount has widened from a 1% premium to a 2% discount during the year.

Looking at the median discount for the European trusts (Figure 13), these have tended to trade within a range during much of the year but there has been a marked shift from trading at a median discount of around 5% to trading around par, which arguably reflects the gradually improving outlook across the year. The same is broadly true for European smaller companies although reflecting their greater volatility the range has been wider with sharper moves more evident. Emerging Europe by comparison has traded at much wider discounts throughout the year reflecting investors' ongoing concerns about Russia, Turkey and Greece in particular.

As illustrated in Figure 14, the median UK Property and UK Infrastructure funds have consistently traded at a premium throughout the year, with renewable infrastructure doing so for most of the year. These premium ratings reflect strong demand from income investors attracted by the strong yields available in these spaces. UK Property's premium moved from 4% to just over 10% in the first quarter but this has slowly unwound during the remainder of the year so that the sector has finished the year on a mildly wider premium than which it started at. The prospect of rising interest rates may well be playing apart and heightened uncertainty in the first quarter may have also helped to boost these assets attractiveness. However, property valuations were largely believed to be improving at the time and share prices may have been running up in anticipation of NAV announcements creating the premium effect. The sharp moves in renewable infrastructure is a reflection of the regulatory changes in the space, in particular curtailment of the ROC regime for Solar PV and on-shore wind. UK infrastructure has broadly traded within a range albeit with a narrowing trend. This may reflect the increasing prospect of interest rate rises.

Private Equity is another sector that has traded in a range during the year but has widened modestly as the year has drawn to a close (see Figure 15). Valuations for unquoted investments tend to follow those of listed markets, albeit with a lag, and the widening discounts towards the year end may well reflect share prices reacting in advance of expected NAV contractions, as in listed markets fell. Many of the underlying investments will have borrowed money and so the discount may also be reacting to the prospect of rising interest rates.

Rating changes of individual companies

Figure 16: More expensive relative to NAV - notable changes to discount (-ve) or premium (+ve)

	Year to 31/12/15 %
Aurora Russia	+62.7
Taliesen Property	+32.5
Lindsell Train	+26.5
Industrial Multi Property	+23.5
Reconstruction Capital II	+20.7
Aseana Properties	+20.3
Marwyn Value Investors	+17.5
Alpha Real Trust	+16.1
Athelney Trust	+15.7
Doric Nimrod Air Three	+14.1

Source: Morningstar

Figure 17: Less expensive relative to NAV - notable changes to discount (-ve) or premium (+ve)

	Year to 31/12/15 %
Juridica Investments	-71.6
Origo Partners	-48.8
Nimrod Sea Assets	-43.6
Baker Steel Resources	-32.3
Globalworth Real Estate	-29.7
Cambium Global Timberland	-28.8
Africa Opportunity	-27.0
P2P Global Investments	-18.2
Better Capital PCC 2012	-18.2
Geiger Counter	-15.3

Source: Morningstar

Rating improvements

Aurora Russia saw its discount narrow as it sold the last of its investments and prepared to hand back the last of its capital before liquidating.

Taliesin Property has traded at a marked premium for some time. However, the increase in the premium reflects the impact on valuations from “privatisation programme”. Under this, the company is splitting up apartment blocks and is selling them off as leasehold properties rather than renting them out. The rental market in Germany is highly regulated, which depresses the value of tenanted property but, as a leasehold property, the manager the apartments command a valuation significantly above that which they as a rented property.

Lindsell Train is another fund that has traded at a premium for some time. This largely reflects the trust’s holding in its management company, which has been a strong driver of performance. However, 2015 saw the premium widen significantly, possibly a consequence of strong growth in the management company’s Assets under management, which led the trust’s chairman to reiterate has warning to investors of the dangers of buying stocks at high premiums.

Industrial Multi Property has seen a marked reduction in its discount during the period. As we mentioned on page 3, the fund believes it can restructure its debt to reduce borrowing costs, enhancing its cash flow. The last statement it made on this topic was in mid-November when it was “actively reviewing the options” to achieve this goal.

Reconstruction Capital II continues to trade at a marked discount has seen its NAV make progress, over the course of the 2015, which has been surpassed by the performance of its share price. The company, which invests in primarily in Romania, Serbia and Bulgaria, has benefitted as investors previously heightened concerns over Russia have subsided during the year.

Aseana Properties announced that it was moving into realisation mode in May. This saw a marked reduction in the discount as investors saw an opportunity to exit the trust at valuations close to NAV rather than at the marked discount then fund was then trading at. However, distributions have been held up by the company’s lenders who have been concerned by the devaluation of the Malaysian Ringgit and, whilst discussions continue, the board has said that capital repayments may not occur until there have been further realisations within the portfolio and the Company has paid down a portion of its project related debts as a result. Reflecting this, the discount has widened during the second half of the year.

Marwyn Value Investors has seen a marked narrowing in its previously wide discount during the course of 2015 as it sold out of entertainment one at a lower price than was being used in its NAV (dragging that down) and thereby freed up cash to return to shareholders which helped push up the share price.

Alpha Real Trust won its case against its former development partner Logix in the case of the Galaxia project in January. However, despite being awarded its full investment amount and interest at 18% from January 2011 to January 2015, as well as interest at 15% until the award is paid, the project has been held at £4.5m reflecting the challenges of getting the money out of India (potential realisation £8.6m).

Athelney Trust is a UK smaller companies fund with a market capitalisation of less than £5m. A small amount of buying activity was sufficient to narrow its discount.

The Doric Nimrod Air funds have been popular for investors that are attracted by their stable regular income (all are currently trading at a yield of 7.9% and this payments largely drives the significant premium that they're all trading on). **Doric Nimrod Air Three** and **Doric Nimrod Air Two** now find themselves trading on premiums in excess of 20%. The last couple of years have seen good air passenger growth and more importantly Emirates, the underlying lessee of the A380 Aircraft which the Dorci Funds own, has continued to see profit growth. Airlines have likely benefitted from a falling oil price during the last twelve-months.

Rating reductions

At the other end of the spectrum, **Juridica** saw its discount widen dramatically during the year from trading at a mild premium to a discount around 50% (the share price fell by more than half during the year). The company hit a major bump in the road when it lost a case that it had previously ascribed quite a high value to. This seemed to unnerve investors, causing the discount to widen, which was compounded when a second case was lost. In November the company announced that it was entering into realisation mode and would not make any further investments (other than where this would be reasonably required to maximise shareholder value) and will return capital to shareholders following the completion of its investments. Explaining the decision to wind up the fund, the Board and investment manager said that they acknowledge that scale and diversity are now required in order to invest successfully in this asset class and that this was not achievable under the Company's existing structure.

Origo Partners saw an already significant discount widen aggressively during the year. The company gained agreement from shareholders in November 2014 to move to a realisation strategy, under which it would divest of its entire portfolio over a period of no longer than four years. However, at the end of September 2015, the company announced that the Chinese slowdown and weak commodity markets were both causing the realisation process to taking longer than they had originally expected. As a consequence of this, the board said that it had become concerned that they would not be able to redeem their convertible ZDPs by March 2016 (a time that they had previously committed to tendering for these by). In December the board has said that, whilst progress negotiations have been slower than expected, they continue to work towards finalising a detailed set of proposals and expect to send a circular to shareholders in early 2016. All of this appears to impacted investor's confidence on what the final realisation value of the ordinary share will be.

Nimrod Sea Assets, which participates in vehicles which acquire, charter and sell Marine Assets associated with the offshore oil and gas industry suffered heavily during the year following the collapse of the oil price. The price fall has meant that many offshore oil exploration projects have simply become unviable and many of its investments have struggled to make payments to the company. With its results announcement in September, the company said that it as a result of poor market conditions it was unlikely to make any further new investments and that the board the Board anticipates returning unrequired uninvested capital after March 2016. In the meantime a number of its investments are standing idle whilst those on charter seem to be earning less than the previously required rate of return. The company is looking at how to best maximise returns from its existing assets.

Like other commodities and natural resources funds, **Baker Steel Resources** has suffered as the bear market in resources continued into its fifth year. The trust began the year with a 40% discount but this widened to finish the year at over 60% despite the introduction of a discount control policy during the year. The widening arguably reflects the continuing deterioration in sentiment towards commodities but may also reflect developments at its largest investment, Polar Silver Resources. This private company owns 100% of Russia incorporated ZAO Argentum, which in turn holds a 50% indirect interest in the Prognoz silver project, 444km north of Yakutsk in Russia. There was a disagreement over the strategy to develop the Prognoz Silver Project between one of the other major shareholders of Polar Silver and the holder of the other 50% interest in the Prognoz Silver Project. In order to remove the uncertainty and risk which this disagreement creates, Baker Steel Resources' investment manager proposed that it increase its interest in Polar Silver to achieve a majority control position. This would then allow it to undertake further work on the Prognoz Asset. Proposals to allow this have now been approved but the increased allocation to this asset (21% to 28%) may have unnerved some investors.

Globalworth Real Estate, which focuses on property investment in South Eastern Europe and Central and Eastern Europe, primarily in Romania, saw its discount widen during the first half of 2015 from around 13% to 36% at the end of the first half before settling back to around 32% today. The company has a successful 2014 with NAV growing 34% and underlying EPS growing 16.1%. NAV growth was slower during the first half of 2015 (up 8.9% during the six-months), which may have contributed to the discount widening although concerns over the growth outlook for the region are also likely to have played a part.

Cambium Global Timberland had another difficult year (its NAV at 30 April 2015 was over 40% lower than a year prior). Currency movements contributed 8.5% to this fall but changes to the valuation of the timber assets and related provisions took of 26.3%. In October, the company said that the global reduction in demand for wood supplies has led to lower wood prices and presented challenges, which have particularly affected its Hawaii plantations. Negotiations to sell these to potential local users of the biomass continue but will reflect the wind damage that property experienced earlier in the year. Other news included an announcement that the next distribution probably won't be until after they start harvesting timber in 2016. An attempt to sell their Minas Gerais plantation also fell through as the Brazilian economy deteriorated. The Brazilian properties were also impacted by drought and some fire damage.

Africa Opportunity Fund saw its malaise of 2014 continue into 2015. The fund's NAV lost 17% during 2014 with commodities being a significant cause although the continent delivered mixed returns with Ghana, their biggest exposure seeing a 17% fall in GDP. The first half of 2015 saw the fund's NAV fall another 8.7%. The fund is still embroiled in a legal dispute with Shoprite (According to Shoprite, 438,743 of the fund’s shares, approximately 10% of the fund, were acquired in unauthorised trading. The fund purchased the shares in the open market on the Lusaka Stock Exchange to learn later that some were allegedly treasury shares of Shoprite sold in breach of Shoprite’s mandate to its transfer agent. Shoprite have since that title did not transfer to the Fund. The dispute is going to arbitration but this has now been delayed to 2016.

P2P Global, which started the year on a premium of 15%, has seen this narrow so it is now trading at a mild discount. The trust has not been alone in this regard. The sector has seen considerable growth in recent years driven by strong yields and returns less correlated with traditional equity markets. However, the collapse of TrustBuddy, Europe’s only listed online platform, unnerved investors and allowed discounts top open up. The four funds, which made up the sector at the time, were quick to point out that TrustBuddy would not have passed through their due diligence processes but the incident no doubt gave investors pause for thought. Ratings have since improved again but not to their previous heights and with two further funds coming to the market since this has arguably served to help moderate premiums.

Better Capital PCC 2012 reported disappointing results for the year ended 30 September 2015 (a fall in NAV of 22.1%). The decline wasn’t a complete surprise as the board had previously announced on the 6 November 2015 that they were expecting a decline in NAV, for the 2012 cell, in the region of 20%. The company said that the fall was caused principally by write downs in Everest, SPOT (Spicers Office Team) and CAV Aerospace. Everest and SPOT both delivered disappointing trading results with sales performance well behind budgeted levels. The company said that, despite the disappointing results, both Everest and SPOT remained profitable and were not subject to liquidity issues. However, following a short period of Fund II ownership, it became clear to the Fund II GP that the trading and operations at CAV Aerospace were significantly worse than understood at acquisition and a substantial warranty claim has been filed. The managers say that the business continues to suffer considerable losses and it will require a further cash injection in the near term.

Geiger Counter saw another difficult year pass in the Uranium market. Physical uranium and equity prices had a particularly positive start to the year, following initial news of Japan's reactor restart programme, but this failed to be sustained. Local court objections slowed the process and whilst Japan's nuclear regulator continues to approve reactivations, the pace of reactivation has been slow. The fund’s manager’s say that they believe this weighed heavily on sentiment towards the year end, with the two "fast-tracked" Sendai facilities the only reactors to recommence electricity production.

Major news stories

With well over a 1,000 news items on the website to choose from, it has been hard to pick what we thought were the most interesting stories of 2015.

Electra vs. Sherborne

One of the stories that attracted the most attention on our website was Sherborne's attack on Electra. Electra had a busy year with both disposals and acquisitions. While Romanian private equity firm, Reconstruction Capital topped our list of the best performing Private Equity funds in Figure 5, Electra came a close second to SVG Capital in the list of best performing Private Equity funds in NAV terms. It was the dispute with Sherborne that dominated the news agenda for Electra though as Sherborne resubmitted its proposal to put two of its directors on Electra's board. This time it won, helped a lot by the size of its stake in Electra – the vast majority of the independent shareholders voted against. Now we are watching to see what Sherborne's next steps are.

Alliance Trust vs. Elliott

We mentioned this on page 8. After many months of resisting any change and expanding its savings administration business with the acquisition of Stocktrade from Brewin Dolphin, Alliance Trust announced a series of reforms aimed at pacifying shareholders who had grown frustrated by Alliance Trust's discount and performance. These reforms included a cost-cutting programme, changes to management, a fully independent board and the sale of the fund's non-core investments. The chairman resigned.

Brooks MacDonald vs. Origo

A long running legal dispute between Brooks MacDonald and Origo was settled. Origo's shareholders approved a change in terms governing the operation of its convertible zero dividend preference shares.

Other corporate activity

Aseana Properties announced it would start to sell of its portfolio and return cash to shareholders. Juridica adopted the same policy after a couple of its investments disappointed. Miton Worldwide Growth (which has just changed its name to Miton Global Opportunities) decided to offer shareholders the chance of an exit in 2018.

Manager changes

A number of manager changes were announced during the year but some of the most impactful we think could be the resignations of Rosemary Banyard, manager of Schroder UK Mid Cap.; John MacDougall, manager of Baillie Gifford Shin Nippon; and Caroline Banszky, head of Law Debenture's trustee operations. Charles Plowden's appointment as the new manager of Monks also appears to have had an positive impact on that fund.

Aurora Investment Trust announced that Phoenix Asset Management would take over the running of its portfolio and Spark Ventures became Gresham House Strategic as its manager changed.

Fee changes

A number of funds cut fees again in 2015 with many scrapping their performance fee. One fund that bucked the trend was BACIT. While its external managers continue to give their services to the fund for free, BACIT's board asked shareholders to approve the introduction of a small fee to cover some central costs.

Portfolio changes

Some of the most notable portfolio changes in 2015 we thought were International Biotech's sale of Convergence Technologies at a 15x multiple of cost; 3I Infrastructure's sale of Eversholt Rail which provided a large NAV uplift for investors; Marwyn's sale of its stake in entertainment one and investment in British Car Auctions; and Caledonia's purchase of Seven Investment Management.

Outlook for 2016

The pace of growth of the investment companies sector faltered a little after the market setback in August but recovered and, as we show in Figure 6, three funds were launched in December. Discounts widened a little in the second half of the year but seem relatively stable. Markets have got off to poor start in 2016. Volatile Chinese stock markets and the prospect of further rate rises in the US are factors in this.

Every month we pull together a report that covers what the fund managers and boards of the investment companies we cover think about the global and local economies and politics. The following is taken from the latest publication (which you can read in full on our website). There is plenty more on there about individual countries such as China and Japan and individual sectors such as Healthcare and Natural Resources.

Global economy

Global economic outlook and markets characterised by uncertainty. The prospect of further interest rate rises appears to be getting closer and market volatility is expected to remain a feature.

David Reid, chairman of Edinburgh Worldwide, sees a global economic backdrop characterised by uncertainty and polarised between economies that are growing and those that are struggling to do so. This mixed picture gives rise periods of market volatility from which few companies are sheltered. Alex Hammond, chairman of Hansa Trust, observes a world that seems to be in the doldrums and says it is difficult to tell whether it is drifting towards stagflation, recession or higher inflation. However, he believes that if there is confidence that the global economy is making a recovery (albeit slow) then stock markets will continue to perform well. Richard Ramsey, chairman of Seneca Global Income and Growth, expects the period ahead to herald a new phase for markets. He believes that the various economic and geopolitical risks that abound will add volatility to markets creating both heightened risk and opportunities. Seneca Investment Managers suggest that investors may have to adapt to an environment of rising US treasury yields, US dollar strength and widening corporate bond yields, whilst equities may also come under pressure. They believe that divergent monetary policies will support a selective approach to asset exposure and that a tightening of US monetary policy may put further pressure on emerging markets with significant current account deficits. Adam Ryan, manager of BlackRock Income Strategies, believes that interest rate rises, sooner rather than later, would signal an optimistic assessment on the growth outlook and encourage investors to think longer-term about market prospects, which he believes remain reasonable.

UK

Industrial groups and oil services companies could struggle to meet market forecasts in the second half of 2016. Markets are heavily focused on potential interest rate rises.

Schroder Unit Trusts Limited, the managers of Schroder UK Mid Cap, say that the slowdown in economic activity in China and many emerging markets is likely to cause many industrial groups to fail to meet market forecasts for the second half of 2016. They expect that the same will be true of oil services names. Ed Beal of Aberdeen Asset Managers, manager of Dunedin Smaller Companies, believes that central banks are dominating investor thinking. The US Federal Reserve delayed an anticipated increase in interest rates, unsettling markets in his view, as participants worry that the Fed must believe that the risks are greater than the market thinks.

Europe

> European equities are not particularly cheap, favourable tailwinds from central bank intervention unlikely to continue.

Rodney Dennis, chairman of Henderson European Focus Trust, has sympathy for the view that markets are firmly in the grip of central bank intervention. He believes that central banks' deep and understandable fear of deflation has led to an unorthodox money printing experiment, which has distorted yield curves and led to a dash for income. He believes that equities are not particularly cheap and that the tailwinds of the past five years are most unlikely to be enjoyed in the year ahead.

Asia

> Asian economies' foreign currency reserves offer to scope for interest rate reduction to support economic growth. China is a risk but activity levels may be bottoming. Valuations are now more attractive and markets could be sensitive to changes in outlook.

David Shearer, chairman of Aberdeen New Dawn, expects near term volatility to persist, despite the rebound in Asian equities. However, he believes that the economic fundamentals of Asia remain strong and that, with most countries holding high levels of foreign currency reserves, their central banks have scope to reduce interest rates if economic growth falters. Schroder Investment Management, managers of Schroder Asia Pacific, argue that the region continues to generate reasonable levels of growth and that external balances generally remain healthy, although China remains the key risk. Carol Ferguson, chairman of Invesco Asia, is seeing signs that Chinese activity levels are bottoming and says valuations now offer some tempting entry points. She's also positive on India and Korea. Ian Hargreaves, the manager, believes that the market has become excessively pessimistic on China but thinks that it has correctly identified India as having superior growth prospects.

Research published in 2015

In addition to the notes we wrote on individual investment companies that we referred to on the front page, we also published a number of pieces of sector research. You can find all the monthly sector research we published over the course of 2015 on our website or, if you are reading this online, by clicking the links below.

	Monthly	Macro	Quarterly
January	PDF	PDF	
February	PDF	PDF	
March	PDF	PDF	
April	PDF	PDF	PDF
May	PDF	PDF	
June	PDF	PDF	
July	PDF	PDF	PDF
August	PDF	PDF	
September	PDF	PDF	
October	PDF	PDF	PDF
November	PDF	PDF	
December	PDF	PDF	

We also published two one-off reports in 2015 – **The importance of income** – and – **Is Japan on the road to recovery**.

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123a Kings Road, London SW3 4PL
0203 691 9430

www.quoteddata.com

Registered in England & Wales number 07981621,
135a Munster Road, London SW6 6DD

Edward Marten
(em@martenandco.com)

James Carthew
(jc@martenandco.com)

Matthew Read
(mr@martenandco.com)