Investment Companies Roundup

February 2016

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Winners and losers in January

Alternative Liquidity Fund tops the price return table for the second month running as its discount continues to narrow. Duet Real Estate had a loan repay early and used the proceeds to finance a cash repayment. Taliesin Property reported a big leap up in its NAV during January – the 74% uplift reflects the increase over Morningstar's NAV estimate. Reconstruction Capital II sold its stake in a dairy company. NB Distressed Debt's board reversed its decision to suspend its buy-back programme for the Extended Life shares. Dragon Ukraine announced a return of cash. FastForward Innovations has been issuing shares at a significant premium to asset value.

Alpha Pyrenees has more debt than assets. Biotech and healthcare stocks had a terrible January – hitting British & American and Woodford Patient Capital as well as the funds in the healthcare sector. China's slowing growth and excessive debt dragged down funds exposed to that market and, once again, had an adverse effect on resources stocks. Strategic Equity Capital's NAV had suffered in December as one holding, Tribal Group, fell and its shares moved to trade at a discount.

Best performing funds in price terms in January:

	(%)
Alternative Liquidity Fund	+48.7
Duet Real Estate Finance	+32.8
Taliesin Property	+20.7
Reconstruction Capital II	+13.4
NB Distressed Debt Extended Life	+11.5
Dragon Ukrainian Properties	+11.3
Aberdeen New Thai	+7.4
Phoenix Spree Deutschland	+7.2
EPE Special Opportunities	+6.9
Asian Total Return	+5.0

Worst performing funds in price terms in January:

	(%)
Alpha Pyrenees	-24.8
RAB Special Situations	-23.5
International Biotech	-20.6
Biotech Growth	-18.6
Macau Property Opportunities	-18.5
Cambria Africa	-18.2
Fidelity China Special Opportunities	-15.5
PME Africa Infrastructure	-15.0
Polo Resources	-14.5
Strategic Equity Capital	-13.6

Best performing funds in NAV terms in January:

	(%)
Taliesin Property	+73.7
FastForward Innovations	+43.9
Duet Real Estate	+12.5
Aseana Properties	+9.0
Carador Income Fund	+8.6
Aberdeen New Thai	+5.8
Vinaland	+5.6
Golden Prospect Precious Metals	+5.5
M&L Property	+5.2
Nimrod Sea Assets	+4.9

Worst performing funds in NAV terms in January:

	(%)
British & American	-28.4
International Biotechnology	-17.5
Biotech Growth	-16.7
Fidelity China Special Opportunities	-13.0
JPMorgan Chinese	-10.3
Edinburgh Worldwide	-10.1
Worldwide Healthcare	-10.1
Woodford Patient Capital	-9.9
Blue Planet	-9.5
Scottish Mortgage	-8.7

More expensive relative to NAV (notable changes)

We have covered all of these funds above. For British & American, the combination of some volatile holdings and relatively high levels of gearing makes it harder for its share price to track its NAV. The premium now looks very high. Reconstruction Capital II and Duet Real Estate Finance are experiencing narrowing discounts as they hand back cash to shareholders.

% discount (-ve) or premium (+ve)	31 Jan (%)	31 Dec (%)
British & American	+44.9	+16.0
NB Distressed Debt Extended Life	-6.1	-15.5
Reconstruction Capital II	-28.8	-35.3
Alternative Liquidity	-81.0	-86.7
Duet Real Estate Finance	-18.5	-23.3

Cheaper relative to NAV (notable changes)

Carador and Fair Oaks' shift to trading at a discount might reflect investors' concerns that loan defaults will pick up if US rates continue to rise. Lindsell Train's premium had looked excessive and Macau Property Opportunities is suffering on Chinese economic woes. The cause of NextEnergy Solar's weakness is harder to pin down – other solar funds are trading closer to asset value.

% discount (-ve) or premium (+ve)	31 Jan (%)	31 Dec (%)
Carador Income Fund	-13.0	+2.3
Lindsell Train	+19.1	+33.9
Macau Property Opportunities	-48.2	-34.4
Fair Oaks Income Fund	-2.5	+9.7
NextEnergy Solar	-6.5	+5.6

Money raised and returned in January

Money raised in January

January saw a pause in the launch of new funds, probably a combination of the Christmas / New Year break and the depressed state of markets. Some funds were able to issue shares though, chief of them was Scottish Mortgage which issued over £9m worth despite making our list of the top ten worst performing funds in NAV terms. Runner up was Jupiter European Opportunities, closely followed by Crystal Amber, both of these funds raised just under £9m. Equity income funds were still in demand as evidenced by shares issues from Finsbury Growth & Income, Standard Life Equity Income and City of London. FastForward Innovations deserves a special mention for issuing stock worth about £7m at a significant premium to asset value.

Money returned in January

SVG Capital continued its programme of cash returns to shareholders with a £50m tender and a number of share buy-backs. BH Macro is buying back its stock quite aggressively, it shrank by £28m. Other hedge funds that saw big outflows were Boussard & Gavaudan (c£8m) and BH Global (c£6m). NB Global Floating Rate Income bought back around £13m worth of shares. AXA Property handed back c£11m via a compulsory redemption of its stock. We should also mention LXB Retail, Templeton Emerging Markets, Alliance Trust and Biotech Growth all of which bought back several million pounds worth of shares.

January's major news stories – taken from our website

Portfolio Developments

Electra bought Grainger Retirement Solutions
Phaunos Timber sold Green Nature Forestry
Renewables Infrastructure bought a French solar portfolio
NextEnergy Solar bought three new solar plants
Ludgate Environmental sold Ignis Biomass
Project Finance made an investment in the residential property sector
Hg Capital is investing in Sovos Compliance
HICL added to its Sheffield Schools PFI investment and its Southmead hospital stake
Bluefield Solar used its credit facility to make six deals
FastForward Innovations made an investment in Schoold
Better Capital 2012 increased its holding in CAV
John Laing Infrastructure bought a stake in Barcelona metro
Reconstruction Capital II is selling its holding in Albalact

Corporate News

Miton Worldwide Growth became Miton Global Opportunities
Duet Real Estate Finance is returning cash following a loan repayment
British Empire took on 20 year debt
JPMorgan Senior Secured Loan will hold a 50% discount
Damille II announced a redemption offer
Electra is undertaking a review
Aurora will not hold a tender
Global Resources has a new strategic investor

Renewables Infrastructure bought a French solar portfolio

Property News

UK Commercial Property bought property in Newcastle and Glasgow
Summit Germany bought office buildings in Munich and Duisberg
Intu Properties is selling its holding in Equity One
AEW UK REIT bought a warehouse in Walsall
Kennedy Wilson Europe sold its Avon Loan portfolio
Assura bought Malmesbury Medical Enterprise
Hammerson bought Grand Central in Birmingham and sold Villebon 2
LondonMetric sold an Odeon in Preston and sold three retail parks
Shaftesbury got planning permission for its development at Broadwick Street in Soho
Custodian REIT sold a building in Manchester and bought a property portfolio

Managers & Fees

BlueCrest All Blue is proposing to make JPMorgan its manager
John Laing infrastructure has appointed a new deputy adviser

Latest Research

*We recently published a note on Premier Energy & Water Trust – **It's a £24m rollover!***

Income

Carador Income Fund says it will achieve a target annual dividend of $0.090 per U.S. Dollar Share (distributed evenly in four quarterly payments). The company says that dividends are expected to be covered from net cashflows (after reinvestment of a proportion of the cashflows from Income Notes in accordance with the Company's investment policy). This represents a slight reduction in the anticipated dividend for the year ending 31 December 2016 and the company say that is driven primarily by a reduction in the portfolio's allocation to Income Notes during 2015 (in favour of an increase in the allocation to cash in order to offer some downside protection to the Company's net asset value). They say that the current target of $0.090 per U.S. Dollar Share is based on the current portfolio composition. However, should there be a reversion of the weighting between Mezzanine Notes and Income Notes during the year, as currently anticipated by GSO / Blackstone Debt Funds Management LLC, the Company's Manager, then the historic target annual dividend of $0.100 per U.S. Dollar Share may be achievable (with any undistributed income retained as a revenue reserve).

Investment Companies announcing their full year dividends in January

Fund	Year ended	Dividend	Change over year	Revenue / earnings	Cover
Aberforth Smaller Companies	31/12/15	26.0[a]	+5.1%	35.0	1.35x
Ediston Property	30/09/15	5.09	initial	4.3	0.85x
Independent Investment Trust	30/11/15	5.0[b]	unchanged	8.3	1.66x
BlackRock North American Income	31/10/15	4.3	+7.5%	4.5	1.06x
Bankers	31/10/15	15.8	+6.8%	17.2	1.09x
TwentyFour Select Monthly Income	30/09/15	6.53	+114.8%[c]	1.3[d]	0.20x[d]
BlackRock Income & Growth	31/10/15	6.0	+5.3%	6.7	1.11x
Ecofin Power & Water Opportunities	30/09/15	7.25	+8.4%	6.2	0.86x[e]
Chenavari Capital Solutions	30/09/15	7.5	+42.9%[f]	7.3[d]	0.97x[d]

a) Plus a special dividend of 2.75p
b) Plus a special dividend of 2p
c) First full year, "the company looks set to perform as expected and hence the Portfolio Manager has no significant concerns about meeting the minimum dividend performance as determined in the prospectus".
d) This fund does not separate revenue and capital returns in its profit & loss statement so the revenue figure includes capital profits and losses
e) The Directors believe the fall in revenues is likely to be temporary in nature and that the Company can continue to generate relatively high levels of income. The Company has the ability to alter its investment portfolio over time to increase the proportion invested in income producing securities or to seek higher yields on its liquid investments. At year end, approximately 15% of the Company's portfolio was invested in securities which do not pay a dividend or interest, including Lonestar, the Company's second largest investment. The Directors also believe that the Company's relatively large revenue reserves help ensure the sustainability of the Company's current dividend policy as they are available to supplement shortfalls in revenue. At year end, the revenue reserves were £19.5m, equivalent to 1.3 times the total dividends payable to ordinary shareholders over the year at the current rate of 1.8125p per quarter or 7.25p per year.
f) First full year.

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