

First Quarter of 2016

QuotedData news

Q1 2016 started badly as markets panicked about the impact of the state of China's economy on global growth. Volatility has eased a bit since but remains elevated.

New research

In February we published a note on Premier Energy & Water – **It's a £24m rollover** – following changes to its capital structure. We published a note on Altin – **A vessel for volatile seas?** – drawing attention to that fund's efforts to deliver positive returns with low volatility. **Investor in Asian growth** was a note we published on Pacific Horizon. This is an Asia ex Japan fund that is differentiated from its competitors by having a portfolio biased to high growth sectors such as technology and biotechnology. We also published a note on India Capital Growth – **Compounding machine** – that described how this India focused fund has been outperforming its listed peer group by buying cash generative, growing companies on reasonable valuations. We have also just published a note on Edinburgh Dragon - **An artificial reality?**. You can read all these notes and more by clicking on the links embedded above or by visiting our website.

In this issue

Performance Data – Dilma Rousseff's possible impeachment created some excitement for funds exposed to Brazil.

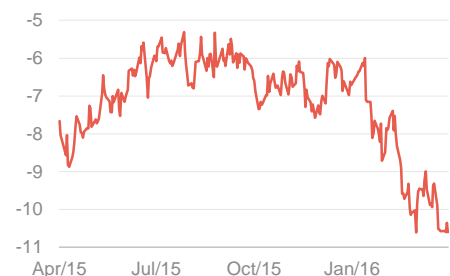
Money in and out of the sector – The hedge fund sector continued to shrink as Dexion Absolute wound up and Highbridge Multi Strategy Fund handed back cash to shareholders.

Significant rating changes – Investors are selling Menhaden Capital, widening its discount.

Major news stories – Atlantis Japan came under attack from LIM Asia Multi Strategy.

All investment companies median discount

Time period 01/04/2015 to 31/03/2016



Over the 12 months to the end of March 2016, the median discount across the whole of the investment company market moved within a range of 5.3% to 10.6%. Q1 2016 saw quite a marked widening of discounts.

Debt sector median discount

Time period 01/01/2016 to 31/03/2016



The median discount within the debt sector widened from 0.5% to 4.6% over Q1 2016. Blackstone GSO Loan Financing, P2P Global and Ranger Direct Lending were all trading on more than a 12% wider discount at the end of the quarter than at the start.

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

In Figures 1 and 2 you can see evidence of a bounce in funds exposed to the commodities and natural resources sector and funds exposed to Latin America, Brazil in particular.

- **FastForward Innovations** has been expanding as it develops its new investment strategy of focusing on intellectual property rights. It has been able to issue shares at quite hefty premiums to net asset value and this has helped push its asset value higher over the quarter.
- **Alternative Liquidity Fund** trades on a very wide discount. The announcement of its first distribution to shareholders helped buoy confidence in the fund
- **Trading Emissions** was also up on news that it would make a capital distribution
- **Reconstruction Capital II** is selling its interest in a dairy company at a decent premium to its valuation.
- The uplift in the commodities sector benefitted funds such as **BlackRock World Mining**, **BlackRock Commodities Income** and **City Natural Resources**. Iron ore prices in particular were quite a bit higher over the quarter. Many commentators are still wary of the sector however.
- A recovery in commodity prices is good news for Brazil and Russia, helping push **JPMorgan Brazil**, **JPMorgan Russian** and **Baring Emerging Europe** into the top performing funds. In Brazil though there is added excitement as momentum builds to removing the scandal-hit president, Dilma Rousseff. Investors have not been fans of the Brazilian government's economic policies. This also helped propel regional funds such as **Aberdeen Latin American Income** and **BlackRock Latin American** higher.
- Taliesin Property, which invests in residential property in Berlin, reported quite a big uplift in its NAV early in the quarter.
- The Thai market was strong over the quarter as GDP growth came in ahead of expectations. This was good news for **Aberdeen New Thai**.
- **Aseana Properties** sold a hotel from its portfolio and hopes to be able to make a cash distribution to its shareholders.

Figure 1: Best performing funds in price terms in Q1 *

	%
Alternative Liquidity Fund	+49.0
Trading Emissions	+32.0
BlackRock World Mining	+28.5
Reconstruction Capital II	+26.2
JPMorgan Brazil	+18.6
JPMorgan Russian	+18.5
Taliesin Property	+17.6
Aberdeen New Thai	+16.5
BlackRock Latin American	+16.0
BlackRock Commodities Income	+15.5

Source: Morningstar, * excluding funds with market cap. below £15m

Figure 2: Best performing funds in NAV terms in Q1 *

	%
FastForward Innovations	+120.6
JPMorgan Brazil	+23.9
BlackRock World Mining	+23.0
Aberdeen Latin American Income	+18.8
Aseana Properties	+16.2
JPMorgan Russian	+16.1
BlackRock Latin American	+15.5
Baring Emerging Europe	+15.2
City Natural Resources	+15.1
Aberdeen New Thai	+13.4

Source: Morningstar, * excluding funds with market cap. below £15m

On the negative side, looking at Figures 3 and 4, there has been an obvious shift in sentiment away from the biotechnology / healthcare sector. This could be because

the Democrats look more likely to win the US election – both leading Democrat candidates have warned that they would clamp down on drug pricing.

- Two funds that have been disappointing investors, **Dolphin Capital** and **Better Capital 2012** fell in Q1 as their discounts continued to widen.
- The sell-off in the biotechnology and healthcare sector took its toll in **British & American** (whose largest investment is a biotech company), **International Biotechnology**, **Biotech Growth** and **Worldwide Healthcare**.
- **Candover** suffered as it wrote down the value of what was its largest investment, Expro International. This company has been hit badly by the fall in the oil price.
- **Menhaden Capital** is a relatively new fund in the environmental sector. It lost quite a lot of money investing in solar company, Sun Edison, and two associated funds.
- **Macau Property Opportunities** has been hurt as falling gambling revenues in the territory weigh on the local property market.
- Where fund structures amplify wider market moves, as is the case with **JPMorgan Income & Capital**'s ordinary shares and **M&G High Income**'s income shares, the fall in markets has weighed on NAVs.
- **Schroder Japan Growth** said its gearing had the effect of making it underperform its benchmark index.
- Pricing of various bits of the debt market weakened, affecting **Fair Oaks Income** and **Axiom European Financial Debt**.

Figure 3: Worst performing funds in price terms in Q1 *

	%
Dolphin Capital	-44.8
Better Capital 2012	-25.9
International Biotechnology	-24.1
Candover Investments	-23.7
Menhaden Capital	-23.4
Biotech Growth	-20.9
Macau Property Opportunities	-20.4
Livermore Investments	-15.8
British & American	-15.8
JPMorgan Mid Cap	-14.4

Source: Morningstar, * excluding funds with market cap. below £15m

Figure 4: Worst performing funds in NAV terms in Q1 *

	%
British & American	-32.7
International Biotechnology	-20.7
Biotech Growth	-20.1
Worldwide Healthcare	-10.0
JPMorgan Income & Capital Ordinary	-9.5
Schroder Japan Growth	-7.9
M&G High Income income shares	-7.9
Fair Oaks Income	-7.4
Menhaden Capital	-6.9
Axiom European Financial Debt	-6.5

Source: Morningstar, * excluding funds with market cap. below £15m

Money in and out of the sector

Generally the first quarter of 2016 has been a difficult one for funds looking to raise capital. There were no new issues in Q1 2016. The early volatility in markets provided a good excuse to sit on the side-lines for some investors and, later in the quarter, the common refrain seemed to be that no decision could be made until after the referendum on Britain's place in Europe. That did not mean that there was no issuance – far from it. Some established funds, notably those paying attractive levels of dividend, raked in substantial amounts of money.

The largest fund to leave the sector entirely during the quarter was **Dexion Absolute**. This fund was once one of the largest listed hedge funds. It had shrunk quite a bit over the years but in March 2016 it was put into liquidation. **Origo Partners** has been

suspended as Brooks Macdonald petitioned to wind up the company. **M&L Property & Assets** (which used to be called Pactolus Hungarian Property) lost its NOMAD (the firm that handles corporate governance for AIM companies) and, as it was unable to replace it, M&L's shares no longer trade.

Figures 5 and 6 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 March 2016.

Figure 5: Funds entering the sector in Q1 2016

	£m
Tritax Big Box REIT	200.0
Empiric Student Property	125.0
Redefine International	115.0
John Laing Infrastructure	92.9
Amedeo Air Four Plus	53.5
Phoenix Spree Deutschland	38.0
TwentyFour Income	37.3
Miton UK MicroCap	28.0
GCP Student Living	19.0
Finsbury Growth & Income	16.1 *

Source: Morningstar, * approximate value of additional capital at 31 March 2016

Figure 6: Funds leaving the sector in Q1 2016

	£m
Highbridge Multi Strategy Fund	456.0 *
NB Global Floating Rate Income	94.0 *
BH Macro	78.9 *
SVG Capital	59.5 *
Alliance Trust	42.1 *
Templeton Emerging	27.7 *
CVC Credit Partners European Opp.s	24.3 *
BH Global	18.2 *
JPMorgan American	17.4 *
Foreign & Colonial	16.6 *

Source: Morningstar, * approximate value of shares bought back at 31 March 2016

Coming in:

Tritax Big Box REIT's share issue was remarkable in that they were looking for £150m but expanded the issue to £200m in the face of overwhelming demand. **Empiric Student Property's** share issue went similarly well, raising £125m. It spent about £39m of this in March on new student accommodation blocks. **Redefine's** share issue allowed it to proceed with the acquisition of a property portfolio from Aegon. **John Laing Infrastructure's** fund raise allowed it to pay down its debt. **Amedeo Air Flour Plus** expanded its fleet of Airbus A380s with its placing money and leased this to Emirates. **Phoenix Spree Deutschland** issued shares to fund an expansion of its property portfolio.

TwentyFour Income's share issue was distinctive in that it allowed shareholders with shares worth about £7m to exit the company at the same time as the fund raising. **Miton UK MicroCap's** issue was structured as a "C" share – allowing it to invest the proceeds without a cash drag lowering the returns for the existing shareholders. **GCP Student Living's** share issue was a bit more modest than Empiric's but it underlined the demand from investors for these student accommodation funds.

Finsbury Growth & Income heads up a long list of funds that are steadily dripping out new stock to interested investors. Other funds that just missed the cut-off for the table include **BlackRock Frontier Markets**, **Schroder European Real Estate**, **Scottish Mortgage**, **Custodian REIT** and **Aurora**.

Going out:

By far the largest amount of money leaving the sector came from **Highbridge Mutli Strategy Fund** (the former Bluecrest AIBLBlue). Bluecrest decided that they would be happy managing just their own money and so embarked on a process of winding up all their external funds. Highbridge (part of JPMorgan) took on the fund but around two thirds opted to cash in their investment. Two other hedge funds, **BH Macro** and **BH Global**, continued to shrink in Q1.

NB Global Floating Rate Income continued to buy back its shares aggressively. **SVG Capital** used a combination of buybacks and a tender to return c£60m to investors. **Alliance Trust** has been working hard on bringing its discount into single but unfortunately it has breached the 10% level again in the recent market volatility.

As discounts have widened out, almost across the board, many funds have been stepping up their buy-back activity. The other funds on this list head up a long list of more than 110 funds buying back stock in the quarter.

Significant rating changes

NB Distressed Debt Extended Life has been quite proactive in buying back its shares. **Taliesin Property** appears to have moved up to a higher premium on the back of a jump in its NAV over 2015. The attractions of investing in German property have also benefitted **Phoenix Spree Deutschland**. **Aurora** is now being managed by Phoenix Asset Management Partners. Not only has its discount moved to a premium but it has also been issuing shares. It is interesting how many of the funds in this list also appear in the list of issuers of stock in Figure 5. The narrowing of **Alternative Liquidity Fund's** discount has a lot further to go but investors responded well to news of its first distribution. **Drum Income Plus REIT** is a fund that hopes to grow in 2016, this could help moderate its premium.

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

	31/12/15	31/03/16
	%	%
NB Distressed Debt Extended	-15.5	-4.7
Taliesin Property	+1.8	+9.4
Aurora	-4.3	+2.6
Alternative Liquidity Fund	-86.2	-79.9
BACIT	+1.6	+7.8
Phoenix Spree Deutschland	-6.6	-0.4
Tritax Big Box REIT	+4.0	+10.1
Target Healthcare REIT	+6.9	+11.5
Drum Income Plus REIT	+10.4	+14.6
John Laing Infrastructure	+7.7	+11.7

Source: Morningstar

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

	31/12/15	31/03/16
	%	%
Menhaden Capital	-8.2	-24.5
Macau Property Opportunities	-28.0	-42.7
Green REIT	+21.2	+6.5
Better Capital 2012	-44.0	-58.5
Blackstone/GSO Loan Fin.	-0.4	-14.3
P2P Global Investments	-0.6	-13.9
Ranger Direct Lending	-2.0	-14.4
ICG Enterprise	-18.2	-29.5
JPMorgan US Smaller Co.s	-0.2	-11.4
Gabelli Value Plus+	-1.3	-12.0

Source: Morningstar

By contrast, looking at Figure 8, **Menhaden Capital's** debut set of results were disappointing and shareholders have been selling, widening its discount. Similarly **Better Capital 2012** announced another big fall in its NAV during the quarter. Macau is not in favour with investors as China's woes and efforts it has made to clamp down on corruption have impacted gambling revenues in the territory. **Green REIT's** premium now looks more reasonable.

Three debt funds, **Blackstone/GSO**, **P2P Global** and **Ranger**, all moved from trading close to asset value to mid-teen discounts during the quarter. We highlighted the general widening of discounts in the Debt sector on page 1. We have yet to see any of these funds take action to tackle the problem.

ICG Enterprise's discount is now more in line with the average fund in its peer group. The last two funds in Figure 8, **JPMorgan US Smaller Companies** and **Gabelli Value Plus+** are both focused on the US market. Nervousness about the pace of US growth grew in Q1.

Major news stories

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
- **Project Finance** made an investment in the residential property sector
- **Hg Capital** invested in Sovos Compliance, Kinapse, Trace One and Raet
- **HICL** added to its Sheffield Schools PFI investment, its Southmead hospital stake and bought a stake in the A63 Autoroute in France
- **Bluefield Solar** used its credit facility to make six deals
- **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
- **Electra** sold fine arts materials producer Daler-Rowney
- **Dunedin Enterprise** committed £8.1m to an investment in Alpha Financial Markets and sold CitySprint
- **JZ Capital** sold six European investments
- **Amedeo Air Four** purchased two Airbus A380s
- **John Laing Infrastructure** invested in the British Transport Police PPP project and an Oldham social housing project
- **Northern Investors** sold Control Risks
- **Foreign & Colonial** said it would invest more in private equity
- One of **ICG Longbow's** loans was repaid and it lent against three Lancashire industrial estates
- **Starwood European** lent money against Dublin apartments
- **Greencoat UK Wind** bought a share of Clyde wind farm

Corporate News

- **Miton Worldwide Growth** became Miton Global Opportunities
- **Damille II** announced a redemption offer
- **Electra** is undertaking a review
- **Global Resources** thought it had a new strategic investor but was forced to sell assets to repay its convertibles
- **Henderson Global Trust** announced it is to rollover into Henderson International Income or Bankers
- **JPMorgan Russian** expanded its remit to include the former Soviet Union Republics (up to 10%)
- **JPMorgan Senior Secured Loans** will wind up
- **M&G High Income** plans to offer a rollover next year
- **JPMorgan Private Equity** plans to create realisation shares
- **Dexion Absolute** proposed a wind up

- **Law Debenture** started placing a fair value on its fiduciary business
- **BlackRock World Mining** said shareholders should expect a lower dividend in 2016
- **Elephant Capital** said it would cancel its admission to trading on AIM
- Trading in **Highbridge Multi Strategy** was suspended
- **JPMorgan Emerging** made some changes to its investment policy
- **Origo** was suspended after Brooks Macdonald filed a winding up petition
- **Jupiter Global** hopes to morph into a UK equity fund
- **Alternative Liquidity Fund** is planning its first distribution

Managers & Fees

- **BlueCrest All Blue** is appointed JPMorgan as its manager and became Highbridge Multi Strategy Fund
- **John Laing infrastructure** appointed a new deputy adviser
- **Standard Life UK Smaller** amended its fee arrangements
- **Alliance Trust** said Katherine Garrett-Cox would leave the company
- **Juridica** announced a changes to its management fee structure and other measures aimed at reducing its costs
- **Seneca Global Income & Growth** got a new co-manager
- **Aberdeen Smaller Companies High Income** got a new manager
- **Atlantis Japan** changed its manager line-up and then came under attack from LIM Asia Multi Strategy
- **Murray International** scrapped its performance fee
- **BlackRock Emerging Europe** appointed a new co-manager
- **Lindsell Train** amended its management fee

QuotedData

QuotedData is a trading name of Marten & Co which is authorised and regulated by the Financial Conduct Authority

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)

IMPORTANT INFORMATION

This note was prepared by Marten & Co (which is authorised and regulated by the Financial Conduct Authority).

This note is for information purposes only and is not intended to encourage the reader to deal in the security or securities mentioned within it.

Marten & Co is not authorised to give advice to retail clients. The research does not have regard to the specific investment objectives, financial situation and needs of any specific person who may receive it.

This note has been compiled from publicly available information. This note is not directed at any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the publication or availability of this note is prohibited..

Accuracy of Content: Whilst Marten & Co uses reasonable efforts to obtain information from sources which we believe to be reliable and to ensure that the information in this note is up to date and accurate, we make no representation or warranty that the information contained in this note is accurate, reliable or complete. The information contained in this note is provided by Marten & Co for personal use and information purposes generally. You are solely liable for any use you may make of this information. The information is inherently subject to change without notice and may become outdated. You, therefore, should verify any information obtained from this note before you use it.

Investment Performance Information: Please remember that past performance is not necessarily a guide to the future and that the value of shares and the income from them can go down as well as up. Exchange rates may also cause the value of underlying overseas investments to go down as well as up. Marten & Co may write on companies that use gearing in a number of forms that can increase volatility and, in some cases, to a complete loss of an investment.

No Advice: Nothing contained in this note constitutes or should be construed to constitute investment, legal, tax or other advice.

No Representation or Warranty: No representation, warranty or guarantee of any kind, express or implied is given by Marten & Co in respect of any information contained on this note.

Exclusion of Liability: To the fullest extent allowed by law, Marten & Co shall not be liable for any direct or indirect losses, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note. In no circumstance shall Marten & Co and its employees have any liability for consequential or special damages.

Governing Law & Jurisdiction: These terms and conditions and all matters connected with them, are governed by the laws of England and Wales and shall be subject to the exclusive jurisdiction of the English courts. If you access this note from outside the UK, you are responsible for ensuring compliance with any local laws relating to access.

No information contained in this note shall form the basis of, or be relied upon in connection with, any offer or commitment whatsoever in any jurisdiction.
