

Second Quarter of 2016

QuotedData news

Q2 was, in the end, dominated by the UK's vote to leave the EU. Nervousness ahead of the vote enhanced volatility but markets came to believe voters would back remain and were shocked when the result went the other way. Sharp falls in Sterling post the vote have been accompanied by a sell-off of UK domestically focused companies.

New research

In April we published a note on Edinburgh Dragon – **An artificial reality?** – that examined the effects of the distortions of monetary policy on that fund's performance. In May we wrote a note on Henderson International Income – **Yield, performance and liquidity** – that explored the benefits of diversifying sources of income by investing overseas. Strategic Equity Capital – **Cashing up** – gave an update on that fund's portfolio. Standard Life Private Equity – **Sitting in a sweet spot** – pondered whether European private equity was more attractive than other parts of the market. A note on Seneca Global Income & Growth – **On track for a zero discount policy** was followed by our second look at three of **Fidelity's funds**, Asian Values, Japanese Values and Strategic Values with a particular focus on the consequences of a changes made to Japanese Values' investment approach. 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 – UK funds hit by referendum result.

Money in and out of the sector – Infrastructure and renewable infrastructure funds in demand.

Significant rating changes – Discounts widen on UK property funds.

Major news stories – Electra gave notice to its manager and RIT Capital considered a merger with Alliance Trust.

All investment companies median discount

Time period 01/07/2015 to 30/06/2016



Over the 12 months to the end of June 2016, the median discount across the whole of the investment company market moved within a range of 5.1% to 12.4%. Discounts spiked out following the referendum result.

Private equity sector median discount

Time period 01/07/2015 to 30/06/2016



The median discount within the **private equity sector** had been widening for some time but it was one of the sectors worst hit by Brexit. Some of the worst affected funds included Better Capital 2012, Oakley Capital and Pantheon.

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 continued recovery of funds exposed to the commodities and natural resources sector. The tables are also comprised by funds that invest most of their money outside the UK (and so their NAVs benefitted from sterling weakness at the end of the quarter).

- **Golden Prospect Precious Metals** heads up both tables as its NAV soared, propelled by a recovery in the gold price. Other commodity prices had a mixed quarter but an improvement in sentiment towards the sector was sufficient to put **BlackRock World Mining**, **Baker Steel Resources**, **El Oro** and **BlackRock Commodities Income** into these lists of best performing investment companies.
- **Juridica** had a torrid time in Q1 but the resolution of two cases and an 8p distribution to shareholders helped revive its fortunes in Q2.
- **UIL** is also a beneficiary of the recovery in commodity prices. It managed to issue a new tranche of zero dividend preference shares during the quarter.
- Vietnam had a great quarter. The country's economy is doing relatively well and restrictions on foreign ownership of companies have been eased. The best performer in NAV terms was **VietNam Holding**. **Vinacapital Vietnam Opportunities** and **Vietnam Infrastructure** have been selling off some property investments.
- **Phaunos Timber** has been tidying up its portfolio and buying back its shares. It made a couple of disposals in the quarter.
- **EPE Special Opportunities** saw a marked narrowing of its discount over the quarter. Just after the end of the period it announced that one of its holdings had completed a deal that added a little to EPE's NAV.
- Two Latin American funds, **JPMorgan Brazil** and **Aberdeen Latin American Income**, were ongoing beneficiaries of a resurgence of interest in the region post the impeachment of the Brazilian president.

Figure 1: Best performing funds in price terms in Q2 *

	%
Golden Prospect Precious Metals	+59.6
Juridica	+49.9
Baker Steel Resources	+45.5
UIL	+28.4
Vietnam Infrastructure	+24.9
BlackRock World Mining	+23.7
Phaunos Timber	+22.7
El Oro	+22.2
EPE Special Opportunities	+22.1
JPMorgan Brazil	+20.1

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

Figure 2: Best performing funds in NAV terms in Q2 *

	%
Golden Prospect Precious Metals	+56.2
UIL	+39.4
BlackRock World Mining	+27.6
VietNam Holding	+24.0
JPMorgan Brazil	+23.8
Vietnam Infrastructure Listed	+23.4
BlackRock Commodities Income	+22.8
Aberdeen Latin American Income	+21.1
VinaCapital Vietnam Opportunities	+20.2
Ecpfin Power & Water Opportunities	+17.6

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

On the negative side, looking at Figures 3 and 4, the biggest fallers in price terms are a mixed bunch but the biggest fallers in NAV terms are exclusively funds focused on UK mid and small cap stocks – a consequence of the referendum result.

- The news from **Nimrod Sea Assets** did not improve. Many of its vessels are underutilised as a result of the fall in the oil price.

- **Candover's** two largest investments floated but it said it would prioritise debt repayments over returning cash to shareholders.
- **Kennedy Wilson European Real Estate** was one of the worst hit property funds over the quarter despite having a proportion of its portfolio invested outside the UK. Sentiment toward the sector has been hit quite hard post the referendum. **Schroder Real Estate** was the worst performing of the pure UK property funds.
- **Macau Property Opportunities** continued to fall on the weakness in the territory's gambling sector, despite making progress with one of its larger developments.
- **US Traded Life Interests** was hit by a sharp rise in insurance premiums.
- **Independent Investment Trust's** largest sector exposure is to UK housebuilders, a sector that has been particularly badly hit since the vote.

Figure 3: Worst performing funds in price terms in Q2 *

	%
Nimrod Sea Assets	-56.4
Candover	-43.4
Kennedy Wilson European Real Estate	-17.0
Macau Property Opportunities	-16.0
Schroder Real Estate	-16.0
Marwyn Value Investments	-15.9
Alternative Liquidity Fund	-14.3
Dolphin Capital Investors	-14.1
US Traded Life Interests	-13.5
JPMorgan Smaller Companies	-13.1

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

Figure 4: Worst performing funds in NAV terms in Q2 *

	%
Independent Investment Trust	-13.4
Small Companies Dividend	-13.3
JPMorgan Smaller Companies	-13.0
Acorn Income Fund	-10.8
Jupiter UK Growth	-10.5
Aberforth Geared Income	-10.4
JPMorgan Mid Cap	-9.9
Mercantile	-9.8
Standard Life Equity Income	-9.7
Aurora	-9.0

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

Money in and out of the sector

The only new issues in the quarter were **Hadrian's Wall Secured Lending**, which sits within the online lending subsection of the Debt sector (it raised just over £80m), and **Pacific Industrial and Logistics REIT**, which raised just £10m to buy a portfolio of properties close to the M1 in the UK. We should also mention **Fidelity Japanese Values** which raised £19.5m from an exercise of subscription shares.

Henderson Global was rolled over into **Henderson International Income** and **Bankers**. **JP Morgan Senior Secured Loan** was wound up. **Schroder Global Real Estate** was reconstructed during the quarter and is no longer a closed ended fund. **RAB Special Situations**, which was once a large fund, finally delisted during the quarter as did **Elephant Capital**.

Figures 5 and 6 show money coming in and out of the sector over the quarter. For buy-backs and tap issues the values shown are the market value of shares issued or bought back / delisted as at the end of June 2016.

Figure 5: Funds entering the sector in Q2 2016

	£m
3i Infrastructure	385.0
Sequoia Economic Infrastructure	175.0
Primary Health Properties	150.0
Greencoat UK Wind	100.0
Target Healthcare REIT	84.0
Hadrian's Wall Secured Lending	80.0
GCP Student Living	60.0
Honeycomb	50.0
Finsbury Growth & Income	38.9*
John Laing Environmental	35.2

Source: Morningstar, * approximate value of additional capital at 30 June 2016

Figure 6: Funds leaving the sector in Q2 2016

	£m
BH Macro	233.2
Witan	112.2*
JPMorgan Senior Secured Loan	67.4
Schroder Global Real Estate	65.9
Pacific Alliance China Land	59.3
NB Global Floating Rate Income	43.9*
Pantheon International	39.4*
Templeton Emerging Markets	29.7*
Mercantile	21.2*
Scottish Investment Trust	16.0*

Source: Morningstar, * approximate value of shares bought back at 30 June 2016

Coming in:

3i Infrastructure's share issue was oversubscribed as were many of the fund raisings in this table. Infrastructure funds proved popular in the quarter as **Sequoia Economic Infrastructure**, which provides debt to this market raised £175m against a target of £150m.

Renewable infrastructure funds were also in demand. The table includes £100m raised for **Greencoat UK Wind** and £35.2m for **John Laing Environmental** but, just missing off the table was £30m for **The Renewable Infrastructure Group**.

Mainstream property funds might have suffered from nervous investors, especially towards the end of the quarter, but specialist property funds such as **Primary Health Properties** and **Target Healthcare REIT** in the healthcare sector and **GCP Student Living** were able to raise decent amounts of money.

A £50m issue for **Honeycomb** at a 1.5% premium to NAV adds 50% to the size of that fund. It had a portfolio of loans identified for acquisition ahead of the issue.

Finsbury Growth & Income tops the table of funds that are expanding through tap issues (regular issues of stock rather than one-offs such as placings).

Going out:

A combination of share buybacks and a 25% tender offer shrank **BH Macro** by £233m during June further reducing the size of the hedge fund sector.

Witan agreed to buy back the considerable stake that Aviva held in the fund. In the event though, £126.5m worth of Aviva's stock was placed with other investors.

Pacific Alliance China Land carried out a \$96m mandatory share repurchase as it continued the process of selling off assets and returning the proceeds to shareholders.

NB Global Floating Rate Income heads the list of funds buying back shares in an effort to control its discount (which covers all the other names on this list). **Pantheon** also stepped up the pace of its share repurchase yet still finished the quarter on more than a 30% discount.

Significant rating changes

Juridica's discount tightened on news of a return of capital to shareholders.

Baker Steel Resources benefitted from improved sentiment towards the commodities and natural resources sector.

A few UK focused funds, such as **Small Companies Dividend**, **Acorn Income Fund** and **Independent Investment Trust**, were affected by the referendum result. Their ratings improved as their share prices did not reflect falls in their NAVs.

Value & Income Fund which has both a UK equity and a UK property portfolio, may have been similarly affected but it also bucked a trend of widening discounts for funds exposed to property. Its property portfolio does not feature the sorts of properties that would be owned by institutional or overseas investors and so is less affected by the referendum result.

Phaunos Timber's discount narrowed as it continued to tidy up its portfolio.

Renewable energy infrastructure and infrastructure funds, such as **Greencoat UK Wind** and **HICL**, found themselves in demand; possibly they are seen as safe havens by investors.

Better Capital 2009's discount narrowed. Its annual results went down well with investors.

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

	31/03/16	30/06/16
	%	%
Juridica	-45.0	-25.5
Baker Steel Resources	-52.4	-38.0
Small Companies Dividend	-12.9	+1.2
Acorn Income Fund	-8.5	+3.1
Value & Income	-25.9	-14.5
Phaunos Timber	-27.6	-17.6
Independent Investment Trust	-2.3	+7.7
Greencoat UK Wind	+2.4	+12.0
HICL Infrastructure	+12.0	+20.8
Better Capital 2009	-30.6	-21.8

Source: Morningstar

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

	31/03/16	30/06/16
	%	%
Nimrod Sea Assets	-4.5	-61.3
Schroder Real Estate	+1.6	-14.7
Kennedy Wilson Eu Real Estate	-1.7	-17.1
NB Distressed Debt New	-13.1	-27.7
Macau Property Opportunities	-39.0	-52.4
F&C Commercial Property	-3.4	-16.7
BlackRock Commodities Inc	+4.6	-8.6
UK Commercial Property	-3.2	-15.4
Standard Life Inv Prop Inc	+4.3	-5.4
North Atlantic Smaller Co.s	-14.1	-22.9

Source: Morningstar

Nimrod Sea Assets was hit by more bad news from its portfolio of oil service vessels. The falling oil price has impacted utilisation rates.

Property funds exposed to mainstream commercial property, such as **Schroder Real Estate**, **Kennedy Wilson European Real Estate**, **F&C Commercial Property**, **UK Commercial Property** and **Standard Life Investments Property Income**, were all affected quite badly in the wake of the referendum result. One fear is that overseas investors will withdraw funds from the UK market. There are worries too about vacancy rates rising in London offices if businesses, especially those in financial services, shift operations abroad. The problem has been made worse by large volumes of selling of open-ended property funds. These suspended redemptions and will now have to sell property to fund the exiting investors (underlining the problem with investing in illiquid assets through open-ended funds). This may all have an adverse effect on the NAVs of the property trusts and so the discounts may narrow again when the next NAVs are announced.

NB Distressed Debt New Global's share price hit new lows towards the end of June. In an update published in the quarter they said liquidity was drying up in their market and selling pressure was pushing down prices.

Macau Property Opportunities is suffering from the weakness of the economy in Macau as gaming revenues have been hit by a clampdown on corruption in mainland China.

An improvement in **BlackRock Commodities Income's** NAV did not feed through in its entirety to its share price, causing it to shift from a premium to a discount.

North Atlantic Smaller Companies discount spiked out after the referendum result but normalised after the quarter end.

Major news stories

Portfolio developments

- **3i Infrastructure** invested in Wireless Infrastructure, TCR and Hart van Zuid
- **Candover** sold stakes in Technogym and Parques Reunidos
- **International Public Partnerships** invested in Gold Coast Light Rail and new schools in the UK
- **Phaunos Timber** sold its stake in Green Resources
- **Baker Steel Resources** will up its stake in the Prognoz project
- **Nimrod Sea Assets** said the charterer of Odin Viking was two months in arrears on payments
- **HICL** bought into a road project
- **Bluefield Solar** bought a plant near Derby
- **GCP Infrastructure** refinanced a solar panel loan
- **Amedeo Air Four** completed its sixth A380 deal
- **Juridica** announced the results of two cases
- **FastForward** invested in Leap Gaming
- **Infrastructure India** sold its toll road
- **NextEnergy Solar** bought five solar plants
- **John Laing Infrastructure** invested in Oldham Social Housing, a portfolio of highway service areas and Barcelona Metro. It also sold stakes in two projects
- **Chenavari Capital Solutions** made a new primary investment
- **UK Mortgages** completed its first securitisation
- **Amedeo Air Four Plus** said it might lease Boeing 777-300s
- **VinaCapital Vietnam Opportunities** and VinaLand sold DaNang Golf and Century 21 stakes
- **Starwood European Debt Finance** lent against a UK property portfolio and funded a Dublin logistics portfolio
- **John Laing Environmental** bought a wind farm in France and bought Dungavel wind farm
- **Hg Capital** invested in STP and sold Mainio Vire
- **Symphony International** bought Christian Liaigre

- **Electra** sold Kalle and Elian
- **Caledonia** sold Bowers & Wilkins
- **Dunedin Enterprise** invested in Kingsbridge
- **Fidelity China** said it would invest more in unlisted stocks
- **Oakley** benefited from the Time Out flotation
- **Vietnam Infrastructure** sold Vina CPK
- **Ecofin Water & Power** sold its Direct Energie stake
- **Woodford Patient Capital** commented on the fall in price of Circassia

Corporate News

- **Rights & Issues** proposed scrapping its split capital structure
- **Witan** said it would buy back Aviva's stake in the company
- **Standard Life Investors Property Income** refinanced its debt facility
- **Henderson International Income** and Bankers expanded as investors rolled over stakes in Henderson Global
- **Scottish Mortgage** plans to invest more in private equity
- **JPEL Private Equity** will move to an orderly wind down
- JPMorgan Elect is being offered as a rollover vehicle for **JPMorgan Income & Growth**
- **Foreign & Colonial** took on some long-term debt
- **Nimrod Sea Assets** will hand back uninvested cash
- Alpine Select took control of **Altin**
- **Dunedin Enterprise** published proposals for a managed wind down
- **Ottoman Fund** asked for its shares to be suspended
- **RIT Capital Partners** approached Alliance Trust with the idea of a merger
- **Ecofin Power & Water Opportunities** published reconstruction proposals
- **Blue Capital Global Re** secured a new credit facility
- **Raven Russia** issued £105m of preference shares
- Shareholders rejected LIM Asia's proposals for **Atlantis Japan**
- **Industrial Multi Property** had a bid for its whole portfolio
- **Value & Income** said it would offer a cash exit in 2027
- **VinaLand** published some proposed wind up options
- **Bluefield Solar** said it wanted to use long-term debt to enhance returns
- **Aberdeen Frontier Markets** said it would pay a dividend
- More of **Electra's** directors resigned
- **Funding Circle SME Income** did a deal with the EIB
- **Global Resources** got a cash injection from its manager

Managers & Fees

- **Scottish Oriental Smaller Companies** appointed a temporary manager
- **Mercantile** appointed a new manager
- **Baring Emerging Europe** scrapped its performance fee
- **Electra** gave its manager notice to terminate its contract

- **Lowland** changed the way its performance fee is calculated
- **Invesco Perpetual Select** cut the fee on its managed cash pool
- **JPMorgan Asian** appointed a new co-manager
- **Invesco Perpetual Enhanced Income** promoted Rhys Davies to co-manager and he also became co-manager of City Merchants High Yield
- **Securities Trust of Scotland** got a new manager
- **Schroder UK Mid Cap** scrapped its performance fee
- **JPMorgan Claverhouse** amended its management fee
- **Global Fixed Income Realisation** had a change of manager
- **F&C Global Smaller** amended its fee arrangements
- Lucy Macdonald took sole charge of **Brunner**

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.
