

Third Quarter of 2016

QuotedData news

Q3 saw the market adapt to life post the UK's EU referendum. Sterling continued to fall but most stock markets stabilised and discounts narrowed across most sectors. While the US election is dominating headlines, it does not seem to be having much impact on markets so far.

New research

In July we published a note on India Capital Growth – **Indian powerhouse** – that looked at how that fund was faring against a backdrop of a strong economy in India and a note on Drum Income Plus REIT – **They say good things come in small packages** – that looked at Drum's approach to generating a high yield from investing in UK property. In August we wrote an update note on Edinburgh Dragon – **Returning to form** – as that fund's performance showed signs of improvement and a note on Herald – **Investing in the future** – that explored how that fund invests in small/medium cap technology stocks. In September we revisited a number of funds with note on Premier Energy & Water – **A BREXIT beneficiary**, SME Loan Fund – **Steady progress in turbulent times**, Standard Life European Private Equity – **reinvestment phase underway** and Seneca Global Income & Growth – **In demand and no discount**. You can read all these notes and more by clicking on the links embedded above or by visiting our website.

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All investment companies median discount

Time period 01/10/2015 to 30/09/2016



Over the 12 months to the end of September 2016, the median discount across the whole of the investment company market moved within a range of 6.0% to 12.4%. Discounts spiked out following the referendum result but have narrowed again over the last quarter.

European funds median discount

Time period 01/10/2015 to 30/09/2016



Early in 2016 the European sector was popular with investors but, as the UK referendum loomed, discounts widened and the sector was hit badly in the wake of the vote. The worst hit funds were Henderson Eurotrust and Henderson European Focus.

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

Generally, Q3 performance was good. Few funds fell by much in NAV terms and so, for the most part, the larger negative share price moves can be attributed to discount widening. There were signs of weakness in the UK property market post Brexit. Sterling weakness boosted funds with overseas investments a little but this has been more pronounced since the end of the quarter. Asian funds did particularly well as investors became a bit more enthusiastic about China.

Looking first at the positive moves:

- **UIL** is the stand out winner, topping the tables in Figures 1 and 2. A strong gold price is benefitting its largest investment, Resolute Mining.
- **Industrial Multi Property** was hit quite hard post Brexit but its share price recovered over the quarter.
- **Kubera Cross-Border** Good news on the political and economic front has helped Indian funds. Its share price has returned to March/April 2016 levels.
- **Livermore Investments** published some results that went down well with investors.
- **European Real Estate** sold off 70% of its portfolio and is handing back cash.
- **Crystal Amber** benefitted from its holding in Northgate as it agitated for change within that company.
- **Lindsell Train's** premium has been rising, presumably investors are ascribing a higher value to its asset management business.
- **SVG Capital** received a bid from Harbourvest and, since the end of the quarter, has agreed the sale of its portfolio.
- **Macau Property Opportunities**, **JPMorgan Chinese** and **JPMorgan Asian** are all beneficiaries of the more positive view some investors seem to be taking of China.
- **Herald** and **Polar Capital Technology** seem to have been helped by a resurgent technology sector.
- **Fair Oaks Income** reported that CLO pricing was very strong in July and August.
- **Aberforth Geared Income**, **Acorn Income** and **Independent** were all funds that were hit quite badly in the wake of the referendum but whose NAVs rebounded in July and August as nerves steadied.

Figure 1: Best performing funds in price terms in Q3 *

	%
UIL	+46.1
Industrial Multi Property	+42.0
Kubera Cross-Border	+39.7
Livermore Investments	+36.8
European Real Estate	+32.7
Crystal Amber	+32.0
Lindsell Train	+31.8
SVG Capital	+31.2
Macau Property Opportunities	+30.5
Polar Capital Technology	+29.7

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

Figure 2: Best performing funds in NAV terms in Q3 *

	%
UIL	+39.5
Crystal Amber	+33.4
Fair Oaks Income	+20.5
Aberforth Geared Income	+20.4
Acorn Income Fund	+19.8
JPMorgan Chinese	+19.0
Independent	+18.5
Herald	+18.5
Polar Capital Technology	+18.3
JPMorgan Asian	+18.2

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

On the negative side:

- **Dolphin Capital's** shares drifted off over the quarter. At the end of September Dolphin reported a 35% drop in its NAV as it sold its stake in Aristo Developers at a 70% discount to its previous valuation.
- **British & American's** performance is being driven largely by swings in the share price of biotech company, Geron, the fund's largest holding by some margin. It took a tumble in September on news from its drug trials.
- **Infrastructure India** rejigged its management contract so that its manager can get free shares on top of its £5.5m fixed annual fee (this on an £80m market cap fund).
- **FastForward's** premium is slightly lower than it was.
- **Juridica's** shares fell after it handed back cash to shareholders.
- **Marwyn** made a new investment.
- The impact of Brexit on property funds showed up in NAV movements for **Kennedy Wilson Europe, AEW UK REIT, UK Commercial Property** and **Alpha Real Trust**.
- **BH Macro** lost money in each month of the quarter.

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

	%
Dolphin Capital	-16.4
Infrastructure India	-16.1
FastForward Innovations	-14.5
Juridica	-12.8
Marwyn Value Investors	-7.1
Menhaden Capital	-6.4
Redefine International	-5.5
Africa Opportunity	-4.5
British & American	-3.5
BH Macro	-3.5

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

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

	%
British & American	-10.8
Kennedy Wilson Europe Real Estate	-3.9
Juridica	-3.0
AEW UK REIT	-2.5
UK Commercial Property	-2.3
Alpha Real Trust	-2.2
Chenavari Capital Solutions	-2.2
Electra Private Equity	-2.0
AXA Property	-1.8
BH Macro	-1.7

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

Money in and out of the sector

Figure 5: Funds entering the sector in Q3 2016

	£m
International Public Partnerships	125.0
HICL Infrastructure	113.4
GCP Infrastructure	75.0
Starwood European Real Estate Fin.	73.0
NextEnergy Solar	68.0*
The Renewables Infrastructure Group	62.6
TwentyFour Income Fund	57.4*
Amedeo Air Four	41.0
Finsbury Growth & Income	31.5*
Foresight Solar Fund	28.9

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

Figure 6: Funds leaving the sector in Q3 2016

	£m
Juridica	35.4
BH Macro	28.8*
Mercantile	24.9*
CVC Credit Partners European Opps	23.6*
Templeton Emerging Markets	23.5*
NB Global Floating Rate Income	23.2*
British Empire	21.1*
Scottish Investment Trust	18.9*
JPMorgan American	18.0*
Foreign & Colonial	17.6*

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

There were no brand new issues during the quarter. Vietnam Enterprise Investments, a pre-existing fund, started trading on the main market of the London Stock Exchange on 5 July. With a market cap of £693m, it is now the largest London listed fund specialising in Vietnam. Ecofin Water & Power Opportunities was reconstructed during the quarter. £166m of cash was returned to shareholders and two new funds, EF Realisation and Ecofin Global Utilities were spun out.

Coming in:

The demand for income from alternative investments is as strong as ever. The list of funds raising money is dominated by infrastructure, renewable infrastructure and debt funds.

International Public Partnerships tops the list with an oversubscribed fund raising that brought in £125m in July. **HICL Infrastructure** was looking for £76m from its fund raising in September but raked in £113m. **GCP Infrastructure** was targeting £35m but got £75m. £60m of this has been used to fund supported living units for occupation by adults with learning or physical difficulties.

The £73m raised by **Starwood European Real Estate Finance** was used to finance a portfolio of UK budget hotels. **Amedeo Air Four** bought a Boeing 777-300ER with its placing proceeds.

Finsbury Growth & Income is gradually expanding in response to demand from investors.

Going out:

Juridica distributed £35.4m to its shareholders. **BH Macro** continues to buy back shares aggressively. Its disappointing performance over the quarter may have spurred some share sales. **Mercantile**, which is focused on UK mid cap stocks, was hit quite hard post Brexit and this might have increased selling pressure on this trust. **CVC Credit Partners European Opportunities** held a tender offer.

The other funds on the list are buying back stock regularly.

Significant rating changes

Reconstruction Capital II sold its largest investment, part of the proceeds is being returned to shareholders. There has been no news from **Northern Investors** and so the reason for its move to a significant premium is a mystery. **Lindsell Train's** premium continues to climb. The only possible justification for this is that the asset management business is undervalued within Lindsell Train's published NAV.

Industrial Multi Property's share price has been climbing since it announced its results at the end of August. The figures showed that it was making progress on reducing vacancies within its portfolio. **US Traded Life Interests** has sold its portfolio and is preparing to wind itself up.

Riverstone Energy has made a disposal, selling its investment in Rock Oil for \$84m more than its valuation at the end of June 2016. **Electra's** price seemed to rise ahead of the IPO of Premier Asset Management. **BP Marsh's** share price rose when a press article said it was close to selling its investment in Lloyd's broker, Besso. **Hg**

Capital continues to announce a number of additions and disposals from its portfolio. **Livermore** rose after it published its interim accounts.

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

	30/06/16	30/09/16
	%	%
Reconstruction Capital II	-50.4	-20.7
Northern Investors	+1.5	+28.0
Lindsell Train	+30.3	+52.4
Industrial Multi Property	-48.0	-26.2
US Traded Life Interests	-24.7	-6.1
Riverstone Energy	-26.9	-9.8
Electra Private Equity	-18.8	-2.1
BP Marsh	-34.3	-18.8
Hg Capital	-22.8	-8.3
Livermore Investments	-57.2	-43.2

Source: Morningstar

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

	30/06/16	30/09/16
	%	%
Juridica	-4.5	-33.4
FastForward Innovations	+76.7	+51.9
Acorn Income Fund	+4.5	-7.7
Menhaden Capital	-22.9	-32.1
Majedie	-4.4	-11.4
Marwyn Value Investors	-25.9	-32.6
Independent	+7.7	+1.3
River & Mercantile UK Mic.	-4.6	-7.7
Infrastructure India	-72.4	-77.9
Africa Opportunity	-22.9	-28.3

Source: Morningstar

Juridica's share price fell sharply after it made a capital distribution to its shareholders. **FastForward Innovations** remains on a significant premium to NAV but good news from its portfolio helped push the NAV higher, reducing the premium.

Acorn Income Fund's share rating fluctuated quite a bit around the referendum result, the same is true of **Independent** and **River & Mercantile Micro Cap**. **Menhaden's** NAV has been ticking up, partly in response to the weak pound, but the share price isn't moving and so the discount is widening. It is a similar story for **Majedie**.

Marwyn announced a new investment but this wasn't enough to rekindle demand for its shares. **Infrastructure India** remains friendless. The only major news was a change to its management contract. **Africa Opportunity's** interim results showed an increase in its US dollar denominated NAV but the shares have been drifting off.

Major news stories

Portfolio developments

- **Marwyn Value Investors** made an investment in Marwyn Speciality Chemicals
- **P2P Global** completed a securitisation of Zopa loans
- **John Laing Environmental** bought a French wind farm
- **Reconstruction Capital II** sold a stake in Albalact
- **JZ Capital** bought a development site in Miami, sold its interest in Winn Group invested in Pacific Medical, bought an office in West Palm Beach, sold Fidor Bank and invested in Oncology Services International
- **Hg Capital** sold Personal&Informatik, invested in Moby, sold Relay Software and NetNames, invested in Blick Rothenburg and sold SFC Koenig
- **Electra** sold part of Hollywood Bowl in an IPO and sold part of its stake in Allflex
- **HICL Infrastructure** bought bonds secured against the A13 project
- **Oakley Capital** sold Parship Elite and purchased interests in three schools projects

- **International Public Partnerships** invested in 10 building schools for the future projects
- **CatCo Reinsurance Opportunities** made a provision in relation to the Alberta wildfires
- **Riverstone Energy** sold Rock Oil and said it would invest in Centennial Resource Development and a controlling stake in Silver Run
- **EP Opportunities** hedged its yen exposure
- **Caledonia** bought the Liberation pubs and drinks business
- **UK Mortgages** agreed its second transaction
- **Renewables Infrastructure** bought a French solar farm
- **3i Infrastructure** invested in a renewable energy company
- **FastForward** invested in Moon Active
- **Amedeo Air Four** bought a Boeing 777-300
- **Nimrod Sea Assets** said Swiber Holdings was in liquidation

Corporate news

- **SVG Capital** received a bid approach from Harbourvest but said it had also had a number of other credible approaches
- **BlackRock Income Strategies** announced a strategic review
- **Private Equity Investor** will delist now that its takeover is unconditional
- **Harbourvest Global Private Equity** to delist from Euronext
- **US Traded Life Interests** sold its portfolio and will wind up
- **Schroder Asian Total Return** said it wanted to reissue treasury shares at a discount
- **Fair Oaks Income** announced details of its first redemption
- **Pacific Horizon** changed its tender arrangements
- **Altin** cancelled its listing in London and made a capital distribution
- An activist started building a stake in **British Empire**
- **Leaf Clean Energy** won a court case against Invenergy
- **Trading Emissions** settled its case against Dianneng
- **Artemis Alpha** said it would cut its exposure to unquoted companies
- **JPMorgan Overseas** said it would change its distribution policy and name

Managers & fees

- **Dunedin Income & Growth** said Ben Ritchie would be its investment manager
- Jean Roche was appointed co-manager of **Schroder UK Mid Cap**
- **Jupiter UK Growth** changed its high watermark for its performance fee
- **Qatar Investment Fund** cut its management fee
- **Mercantile** cut its management fee
- The managers of **VPC Speciality Lending** will reinvest 20% of their fee in shares
- **Aberdeen Asian Smaller** cut its fees
- New management contract for **Infrastructure India**
- **BlackRock Latin American** cut its fees
- **Baillie Gifford Japan** altered its management fees

- **Edinburgh Worldwide** altered its management fees
- **European Investment Trust** got a new manager
- **Aberdeen Asian Income Fund's** management fee was cut
- **Ground Rents Income** amended its fee structure
- **JPMorgan Global Emerging Markets Income** appointed a new co-manager
- **P2P Global** adjusted its fee structure
- Gresham House took over the management of **LMS Capital**

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