

November 2016

Winners and losers in October

EPE Special Opportunities saw a dramatic rise in its NAV as its largest holding, Luceco, IPOd. Alternative Liquidity's discount narrowed a little as its share price rose after it announced an increase in its NAV. One of Polo's investments won a court case and another's gold mine commenced production. Menhaden's discount narrowed. India Capital Growth had a good month, we published a note on it. It, like most of the funds on these lists, was a beneficiary of weak sterling. The Brazilian market hit a four year high during October as investors remain optimistic about a recovery in its economy. AXA Property said it hopes to sell its remaining portfolio in coming months.

Leaving aside a small correction in Lindsell Train's premium, a slightly weaker gold price, which impacted UIL, two themes stand out in the list of worst performing funds – an aversion to domestic UK focused funds, as the fallout from the referendum continues, and weak biotech and healthcare stocks as the US election date nears and Hilary Clinton leads (she has promised to address the issue of overpricing in the pharmaceutical sector).

Best performing funds in price terms in October:

Worst performing funds in price terms in October:

	(%)		(%)
Alternative Liquidity Fund	+38.2	JPMorgan Mid Cap	-8.4
EPE Special Opportunities	+28.1	Standard Life Equity Income	-8.3
Polo Resources	+17.2	UIL	-7.7
Menhaden Capital	+16.4	Independent	-7.6
India Capital Growth	+16.0	Biotech Growth	-7.4
JPEL Private Equity	+15.6	Lindsell Train	-6.7
AXA Property	+14.8	Henderson Smaller Companies	-6.6
Aberdeen Latin American Income	+14.7	Chelverton Small Companies Dividend	-5.9
Dragon Ukrainian Properties	+14.0	Acorn Income Fund	-5.9
BlackRock Latin American	+14.0	Aberforth Smaller Companies	-5.9

Source: Morningstar, Marten & Co

Source Morningstar, Marten & Co

Best performing funds in NAV terms in October:

Worst performing funds in NAV terms in October:

	(%)		(%)
EPE Special Opportunities	+63.5	Juridica	-11.5
BlackRock Latin American	+16.2	Biotech Growth	-6.7
JPMorgan Brazil	+15.2	UIL	-6.6
Aberdeen Latin American Income	+12.6	Montanaro UK Smaller Companies	-5.2
Candover	+10.1	Woodford Patient Capital	-5.1
Schroder Japan Growth	+10.0	Acorn Income Fund	-4.8
CatCo Reinsurance Opportunities	+9.8	International Biotechnology	-4.6
Premier Energy & Water	+9.3	TR Property	-4.0
Dragon Ukrainian Properties	+9.2	Aberforth Geared Income	-3.7
India Capital Growth	+8.9	Henderson Smaller Companies	-3.6

Source: Morningstar, Marten & Co

Source Morningstar, Marten & Co

Significant moves in discounts and premiums

More expensive relative to NAV (notable changes)

British & American's premium continues to gyrate despite Geron (its largest holding)'s lacklustre share price. Juridica recovered after last month's sell-off. There was no news on Taliesin. Not much happened at Menhaden either but its share price rise could be a delayed reaction to news that the manager's wife bought stock at the end of September.

Cheaper relative to NAV (notable changes)

EPE Special Opportunities saw its discount widen as its share price didn't keep pace with the sharp rise in its NAV. Green REIT issued stock to settle a hefty performance fee. Schroder European Real Estate's premium came off a little after it announced a fund raising.

	% discount (-ve) or premium (+ve)			% discount (-ve) or premium (+ve)	
	30 Sep	31 Oct		30 Sep	31 Oct
	(%)	(%)		(%)	(%)
British & American	+50.7	+77.4	EPE Special Opportunities	0.0	-21.6
Juridica	-33.4	-15.8	Lindsell Train	+52.4	+43.2
AXA Property	-16.2	-2.0	Green REIT	+0.5	-8.4
Taliesin Property	+7.4	+16.6	Edinburgh Investment Trust	-0.2	-6.8
Menhaden Capital	-32.1	-23.2	Schroder European Real Estate	+17.4	+11.2

Source: Morningstar, Marten & Co

Source Morningstar, Marten & Co

Money raised and returned in October

Money raised in October

Another month passed with no new issues, despite many rumours of funds planning to list. Many existing funds managed to expand however. Topping the list, with a phenomenal £360m, was Tritax Big Box REIT. Originally it was looking for £250m. Secure Income REIT raised £140m to invest in a portfolio of Travelodge hotels. Bluefield Solar raised £60.6m through a placing. Foresight Solar raked in £31.9m through a tap issue of stock. Custodian REIT's placing brought in £25m and Schroder European Real Estate's, £15m. CC Japan Income expanded by £12.6m. Atlantis Japan has a relatively unusual share structure where its ordinary shares come with embedded subscription rights (a bit like subscription shares that cannot be separately traded). An exercise of subscription rights raised £11m for the trust. Green REIT's managers were handed £11.9m worth of new stock in lieu of a performance fee. Reconstruction Capital II's convertibles were converted to equity. Other funds that expanded by more than £5m were John Laing Environmental, TwentyFour Income, Finsbury Growth & Income, Personal Assets and MedicX.

Money returned in October

Mercantile bought back more than £50m worth of its shares over the course of October including £23m worth on a single day. Mercantile's focus on UK plc is unpopular with investors post the referendum. CVC Credit Partners European Opportunities held a tender offer and shrank by around £48m. Kennedy Wilson European Real Estate is engaged in a £100m buy-back programme that was announced at the end of September, they bought back £38m worth. In addition, a number of funds continued with their regular share repurchases. Scottish Investment Trust, British Empire, Witan. Biotech Growth, Templeton Emerging, Foreign & Colonial, Utilico Emerging, Herald, JPMorgan American and Worldwode Healthcare all bought back more than £5m worth of stock.



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*Source Baillie Gifford & Co

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Portfolio Developments

- **Livermore** sold an office complex in Bern
- **3i Infrastructure** bought Infinis and invested in a Dutch motorway
- **EPE Special Opportunities'** investment, Luceco, IPO'd
- **NB Private Equity's** investment, Extraction Oil & Gas, IPO'd
- **Hg Capital** invested in Baldwins
- **GCP Infrastructure** invested in social housing
- **JZ Capital** sold Southern Petroleum Labs
- **Electra** sold Vidal Group and its investment, Premier Asset Management, IPO'd
- **Project Finance** made a loan against a care home
- **International Public Partnerships** invested in US military housing
- **Dolphin Capital** sold Aristo

Property News

- **Schroder European Real Estate** bought an office in Paris
- **Derwent London** sold an office in Covent Garden
- **Target Healthcare REIT** invested in Tonbridge
- **Intu** sold its store in Bromley
- **MedicX** invested in Brynmawr
- **Picton Property** sold a property and repaid its zeros
- **LondonMetric Property** bought a distribution warehouse
- **Phoenix Spree Deutschland** bought four buildings in Berlin
- **Tritax Big Box REIT** made a number of new investments
- **Custodian REIT** bought a couple of distribution centres
- **Empiric Student Property** made five new investments

Corporate News

- **JPMorgan Russian** changed its benchmark
- **Terra Capital** won a tax case in Macau
- **Fidelity Asian Values** will issue subscription shares
- **Aberdeen Asian Smaller** wants to invest in pre IPO stocks
- **Ottoman's** former CFO was indicted
- **SVG Capital** agreed to sell its portfolio to Hartbourvest
- **JPMorgan Smaller Companies** wants to invest more in AIM stocks
- A continuation vote was triggered for **UK Commercial Property**
- **Atlantis Japan** expanded as its embedded subscription rights were exercised
- **Henderson Diversified Income** is considering moving its domicile to the UK
- **Ground Rents Income** wants to take on more borrowing

Managers & Fees

- **BH Macro** adjusted its management fee
- **Finsbury Growth & Income** changed its fee arrangements
- **Invesco Perpetual Select UK Equity** has a new manager



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Research

Update | Investment trusts

26 October 2016

Henderson International Income Trust

A way to diversify income

The sharp falls in sterling over the past few months have flattered the performance of many funds investing overseas, including Henderson International Income Trust (HINT), but have compounded problems for some UK equity income trusts. HINT's manager warns that the threat of dividend cuts looms large for UK-focused trusts and thinks that now, more than ever, the yield on HINT's overseas equity portfolio should look very attractive to UK-based investors. HINT has just raised its quarterly dividend to 1.2p, up 4.3% on the previous quarterly dividend.

HINT's manager says that, five years after HINT's launch, the arguments in favour of the fund are as strong as ever. Threats to dividends in the oil, mining and financial sectors run the risk of severely denting the amount of income available to investors in the

Sector	Global equity income
Ticker	HINT LN
Base currency	GBP
Price	144p
NAV	149.43p
Premium/(discount)	(3.6%)
Yield	3.2%*

Note: * historic, 3.3% on new forecast



Update | Investment companies

21 October 2016

India Capital Growth

India at a significant discount

In August, India Capital Growth (IGC)'s subscription shares were converted into ordinary shares. This increased its net assets by 29.2% before costs. IGC's manager believes that this expansion should improve liquidity in the company's shares and lower its ongoing charges ratio. However, IGC's manager points out that despite these positive developments, an improving outlook for India and superior performance relative to its immediate peers, IGC's discount has widened both absolutely and relative to its peer group. The manager feels that this is not justified and sees a number of potential catalysts for it to narrow, particularly if IGC continues to grow and passes the £100m market cap threshold (£91.5m as at 20 October 2016).

Sector	Country specialist – Asia Pacific
Ticker	IGC LN
Base currency	GBP
Price	81.375p
NAV	101.31p
Premium/(discount)	(19.7%)
Yield	Nil



We published three research notes during October. Our update note on Henderson International Income – **A way to diversify income** – looked at the attractions of diversifying income by investing overseas. India Capital Growth – **India on a significant discount** – was an update note that highlighted the recent expansion of that fund and the story behind India's booming economy. Pacific Horizon – **Brave new world** – examined some of the themes that the manager is focusing on within that fund including developments in artificial intelligence.

Update | Investment trusts

10 October 2016

Pacific Horizon

Brave new world

Pacific Horizon's (PHI)'s performance has started to improve over the past few months, yet the manager thinks that there is still considerable potential for the portfolio. He believes that some of the themes that he is focusing on could radically alter all our lives and that many Asian companies will be at the forefront of this change.

The portfolio's substantial exposure to the technology sector is only one strand of PHI's approach to investing in fast-growing companies. This update examines the manager's growing interest in Vietnam, for example. It also looks at the revisions that PHI is making to its discount control mechanism.

In a world of low growth and considerable uncertainty, investors have been favouring defensive and higher yielding but low-growth

Sector	Asia ex Japan
Ticker	PHI LN
Base currency	GBP
Price	218.25p
NAV	254.66p
Premium/(discount)	(14.3%)
Yield	0.2%



Income

Investment Companies announcing their full year dividends in October

Fund	Year ended	Dividend	Change over year	Revenue / earnings	Cover
Volta Finance	31/07/16	EUR0.62	unchanged	EUR0.345 ^a	0.56x
CQS New City High Yield	30/06/16	4.36	+1.2%	4.5	1.03x
Redefine International	31/08/16	3.2	-1.5%	3.2	1.00x
UK Mortgages ^b	30/06/16	3.0	Initial period	-0.017 ^a	n/m
Fidelity Asian Values ^c	31/07/16	4.5	+125%	5.36	1.19x
Aberdeen Asian Smaller	31/07/16	10.5	unchanged	9.22	0.88x
Manchester & London	31/07/16	13.36	+123%	13.45	1.01x
BlackRock Greater European	31/08/16	5.3	+6.0%	5.6	1.06x
JPMorgan Global Convertibles ^d	30/06/16	4.5	unchanged	4.13	0.92x
Aberdeen Latin American Income ^e	31/08/16	3.5	-17.6%	4.6	1.31x
JPMorgan Smaller Companies	31/07/16	18.3	+66.4%	18.31	1.00x
The SME Loan Fund ^a	30/06/16	4.95	Initial period	6.94	1.40x
Scottish Oriental Smaller Companies	31/08/16	11.5	unchanged	9.5	0.83x
JPMorgan Global Emerging Mkts Income	31/07/16	4.9	unchanged	4.79	0.98x
TR European Growth	30/06/16	9.0+2.5 ^f	+28.6% ^f	13.48	1.17x ^f
Henderson EuroTrust	31/07/16	20.0	+8.1%	23.5	1.17x
Bluefield Solar	30/06/16	7.25	unchanged	7.1	0.98x

Source: Marten & Co

- a) This company does not separate capital and revenue items in its profit and loss account. The earnings figure includes an element of capital profits or losses.
- b) The Board anticipates that the 6 pence dividend that UK Mortgages is due to pay in our first full calendar year of operation is unlikely to be fully covered.
- c) The company's objective is long term capital growth, any revenue surplus is a function of a particular year's business and it should not be assumed that dividends will continue to be paid in future.
- d) It is the Board's intention to continue to pay 4.5p.
- e) The board intends to continue to pay an annual dividend of at least 3.5p per Ordinary share for the financial year ending 31 August 2017.
- f) TR European Growth is paying a 2.5p special dividend, the change on the year is based on the underlying dividend the cover ratio is based on the total dividend.

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SCOTTISH MORTGAGE WAS ORIGINALLY LAUNCHED TO PROVIDE LOANS TO RUBBER GROWERS IN MALAYSIA IN THE EARLY 20TH CENTURY.

SCOTTISH MORTGAGE INVESTMENT TRUST

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Scottish Mortgage Investment Trust plays a 'long game' with a focused list of around 70 stocks. Our aim is to meticulously seek out truly innovative organisations (the obvious and the unexpected) and stick with them over the long-term. We believe this strategy gives us a strong competitive advantage in identifying companies with real potential for significant sales growth – often as a result of their intelligent deployment of transformational technology.

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Standardised past performance to 30 June each year*:

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Scottish Mortgage	-11.0%	26.9%	28.9%	25.8%	4.9%
FTSE All-World Index	-4.0%	21.4%	9.6%	10.2%	14.0%

Past performance is not a guide to future returns.

Please remember that changing stock market conditions and currency exchange rates will affect the value of your investment in the fund and any income from it. You may not get back the amount invested.

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Long-term investment partners

*Source: Morningstar, share price, total return as at 30.06.16. *Ongoing charges as at 31.03.16. Your call may be recorded for training or monitoring purposes. Scottish Mortgage Investment Trust PLC is available through the Baillie Gifford Investment Trust Share Plan and the Investment Trust ISA, which are managed by Baillie Gifford Savings Management Limited (BGSM). BGSM is an affiliate of Baillie Gifford & Co Limited, which is the manager and secretary of Scottish Mortgage Investment Trust PLC.

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Authority

123a Kings Road, London SW3 4PL

020 3691 9430

www.quoteddata.com

Registered in England & Wales number 07981621

135a Munster Road, London SW6 6DD

Edward Marten

(em@martenandco.com)

Christopher Bunstead

(cb@martenandco.com)

James Carthew

(jc@martenandco.com)

Matthew Read

(mr@martenandco.com)

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