QuotedData

Annual report | Investment Companies

January 2017

2016 review of the year

2016 – a year that won't be forgotten

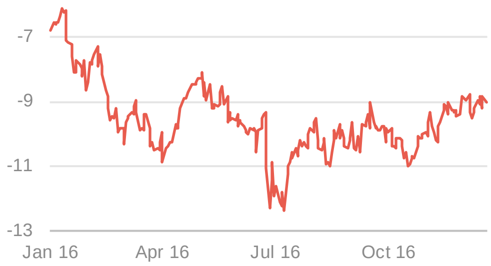
There are many reasons why 2016 won't be forgotten in a hurry but, for investors, it will most likely be remembered for two things – Brexit and the election of Trump. Both events had a marked impact on markets, the first triggering significant weakness in sterling (which flattered the performance of overseas assets) and the second giving rise to hopes of resurgent US economic growth. Other significant moves in markets included a recovery in the oil price and the continued strength of government bond markets in the UK and Europe (leading to lower yields). It is going to be fascinating to see how events play out in 2017. We think that markets might be in for a bumpy ride.

At QuotedData, we published a long list of research (see page two) as our investment company client base expanded. We also released our first Independent Guide to Investment Companies – a publication that we intend to update and reissue on a regular basis. We think this is an invaluable tool for anyone looking at using investment companies in their portfolio. It builds from a basic introduction to the sector to cover quite complex topics, hopefully in a way that it is understandable. The core of this guide is drawn from the extensive glossary built into the QuotedData website. Like all our educational material and our research, the guide is free to **download**.

In other developments, 2016 also saw us build on our coverage of the mining sector. As 2017 unfolds, our intention is to expand the range of sectors covered by QuotedData – it is just a question of finding the right analysts.

Investment companies sector median discount

Time period 01/1/2016 to 31/12/2016

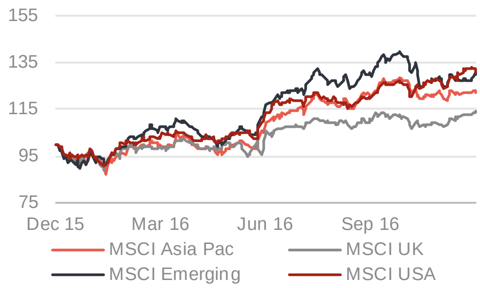


Source: Morningstar, Marten & Co

Exchange Rate	31/12/16	Chg. on year
USD / GBP	1.2340	-16.3%
USD / EUR	0.9506	3.2%
USD / JPY	116.96	-2.7%
USD / CHF	1.0190	1.7%
USD / CNY	6.9450	6.9%

MSCI Indices rebased to 100

Time period 01/01/16 to 31/12/16



Source: Bloomberg and Marten & Co. Figs in GBP

	31/12/16	Chg. on year
Oil (Brent)	56.82	52.4%
Gold	1147.5	8.1%
US Tsy 10 yr yield	2.4443	7.7%
UK Gilt 10 yr yield	1.239	-36.8%
Bund 10 yr yield	0.204	-67.6%

Investment company research published in 2016

Herald Investment Trust – **Tech bids demonstrate value**

Aberdeen Frontier Markets - **Long term growth opportunity?**

Henderson International Income - **A way to diversify income**

India Capital Growth – **India at a significant discount**

Pacific Horizon – **Brave new world**

Seneca Global Income & Growth – **In demand and no discount**

Standard Life European Private Equity – **Reinvestment phase underway**

The SME Loan Fund – **Steady progress in turbulent times**

Premier Energy & Water – **A Brexit beneficiary**

Herald Investment Trust – **Investing in the future**

Edinburgh Dragon – **Returning to form**

Drum Income Plus REIT – **They say good things come in small packages**

India Capital Growth – **Indian powerhouse**

Fidelity – **closed end funds review**

Seneca Global Income & Growth – **On track for a zero discount policy**

Standard Life European Private Equity – **Sitting in a sweet spot**

Strategic Equity Capital – **Cashing up!**

Henderson International Income – **Yield, performance and liquidity**

Edinburgh Dragon – **An artificial reality?**

India Capital Growth – **Compounding machine**

Pacific Horizon – **Investor in Asian growth**

Altin – **A vessel for volatile seas?**

Premier Energy & Water – **It's a £24m rollover!**

In this issue

Performance Data

Figure 1, which shows how the major investment company sectors performed over the course of 2016 in price terms, tells an interesting story in that only one of these sectors lost money, on average. Despite a general air of gloom, markets did well. The best performing of these sectors was Natural Resources, breaking a long downward trend. Even after decent performance in 2016, this sector is still a long way off its highs. The best performing fund in the sector was **BlackRock World Mining** where investors doubled their money. Generally, funds investing in smaller, more speculative projects did less well as is exemplified by the performance of minnow, **Tiger Resource Finance**, which lost money.

The main driver behind the improvement in the fortunes of the Natural Resource sector was Trump's election. Many investors became convinced that his policies, including promises to make substantial investment in America's neglected infrastructure, would be beneficial for the sector. Optimism about improved US growth also drove share prices in the North American sectors higher with **North American Income Trust** the best performing fund focused on North American equities. By contrast, **North Atlantic Smaller** has a strong bias to UK companies and this held back that fund relative to its peers.

The weak pound flattered the performance of most funds invested overseas. 2016 was a year of recovery in **Murray International**'s fortunes. It, like North American Income, is managed by Aberdeen Asset Management. Their funds had, for the most part, been lagging their peers as Aberdeen's focus on quality was not being rewarded (see our **note on Edinburgh Dragon** for more on this topic). **F&C Managed Portfolio Income** was held back by its exposure to the UK.

Emerging and Asian funds see-sawed on worries about Trump's trade policies but delivered reasonable returns to UK investors, aided by strong currencies relative to sterling. **Templeton Emerging** topped the performance table for emerging markets focused funds while **Fidelity Asian Values** was the best performing Asian focused fund. The laggard in that sector was **Pacific Horizon**. We have written **notes** on both funds that you may be interested to read. One of the best performing markets in Asia was Vietnam and this helped **VinaCapital Vietnam Opportunities** to return more than 60% over 2016.

In the private equity sector, the stand-out winner was **EPE Special Opportunities** whose share price more than doubled. Its portfolio performed well over the year, culminating in the IPO of Luceco, its largest investment. Two more IPOs, of Parques Reunidos and Technogym, brought **Candover**, which has been selling off its portfolio, closer to liquidation. However, the prices for both IPOs came in lower than Candover had hoped for.

In the Global sector, demand for shares in **Lindsell Train** pushed it onto a very large premium, possibly reflecting investors' estimate of the value of that fund's stake in its management company. **Independent** had made a big bet on UK domestic growth and suffered in the aftermath of the referendum vote.

In the middle of the table we would highlight the disappointing performance of **BlackRock Income Strategies** which has led to the management contract of that fund moving on again, this time to Aberdeen. Darling of yesteryear, **P2P Global**, also ran into problems in 2016 as the consumer facing online lending funds faced higher than expected losses. The Biotech sector had a rollercoaster ride as Democrat threats to curb drug prices evaporated with Trump's win.

UK and European funds are the laggards in Figure 1. Fears over the impact of Brexit on UK growth and rising inflation, as weak sterling feeds through to consumer prices, held back the share prices of domestically focused UK companies. The potential for this to have a knock-on impact on the rest of the EU, plus ongoing worries about the balance sheet strength of many European banks, also had an impact on funds focused on the region. **Jupiter European Opportunities**, often the best performing fund in the sector, takes the wooden spoon here as it has more UK exposure than most of its peers. **LXB Retail** blamed Brexit for its woes. **Industrial Multi Property**'s return to form continued. Its independent non-executive directors have just won a vote that will allow them to sell off the fund's portfolio.

We should also highlight the good performance of **Taliesin Property**, which is benefitting from rising property prices in Berlin, and **Crystal Amber**, a UK fund that makes its own luck by agitating for change within the companies it holds.

Figure 1: Best and worst performers by sector in price terms over 2016, ranked by sector median

Sector	Best performing Fund	change %	Sector median. %	Worst performing Fund	change %
Natural Resources	BlackRock World Mining	+100.6	60.9	Tiger Resource Finance	-14.3
North America	North American Income	+56.0	46.4	North Atlantic Smaller	+12.5
Global Equity Income	Murray International	+50.5	28.7	F&C Managed Portfolio Income	+9.2
Global Emerging	Templeton Emerging	+47.8	28.0	Ashmore Global GBP	+1.4
Asia ex Japan	Fidelity Asian Values	+42.3	27.9	Pacific Horizon	+20.0
Private Equity	EPE Special Opportunities	+133.0	27.8	Candover	-55.6
Asia – single country	VinaCapital Vietnam Opp	+69.3	18.9	Weiss Korea Opportunity	+12.9
Global	Lindsell Train	+61.9	17.7	Independent	+0.5
Hedge	Alternative Liquidity	+88.4	16.5	Global Fixed Income Realisation	-14.3
Infrastructure	Vietnam Infrastructure	+47.4	14.9	Infrastructure India	-56.1
Flexible Investment	Miton Global Opportunities	+33.9	14.3	BlackRock Income Strategies	-16.0
Japan	Schroder Japan Growth	+24.7	13.3	JPMorgan Japanese	+11.3
Renewables	Greencoat UK Wind	+17.4	11.3	John Laing Environmental	+9.4
Japan Smaller Co.s	Bailie Gifford Shin Nippon	+24.5	9.4	Prospect Japan	+1.5
Leasing	DP Aircraft	+29.7	9.2	Nimrod Sea Assets	-87.0
UK Income & Growth	Temple Bar	+20.7	9.0	Standard Life Equity Income	-10.9
Debt	Duet Real Estate Finance	+59.4	6.4	P2P Global	-16.3
Biotech / Healthcare	Polar Capital Global Health	+17.1	5.9	Biotech Growth	-4.7
Europe	European Investment Trust	+12.8	5.5	Jupiter European Opportunities	-7.0
UK Property	Industrial Multi Property	+104.1	4.6	LXB Retail Properties	-37.9
European Small. Co.s	TR European Growth	+19.6	3.5	European Assets	-2.6
UK	Crystal Amber.	+34.5	3.3	JPMorgan Mid Cap	-11.3
European Property	Taliesin Property	+65.6	0.8	Ottoman Fund	-48.0
UK Smaller Co.s	Chelverton Growth Trust	+23.7	-2.5	SVM UK Emerging	-14.4

Source: Marten & Co, Morningstar

Figures 2 to 5 show the best and worst performing individual funds in 2016 in both price and NAV terms. The stand out winner in price terms is **Tejoori**, a fairly small, sharia compliant fund that is in the process of winding itself up. After months of speculation, it finally sold its last investments early in January 2017. EPE Special Opportunities and Industrial Multi Property Trust were mentioned above. **Alternative Liquidity Fund**, which has a portfolio of illiquid investments that it is gradually turning into cash, made some progress. It still trades on a very wide discount.

The recovery in commodity prices is reflected in the rest of the list of funds in Figure 2 including **JPMorgan Russian** whose share price recovery reflects the importance of the oil price to the Russian economy. The same phenomenon is reflected in the list of funds in Figure 3 which also includes **Baring Emerging Europe**, another fund with meaningful exposure to Russia.

Topping the table in Figure 3, **FastForward Innovations** has a reasonably new portfolio of unlisted investments. Some early success helped propel its NAV higher but investors had been over enthusiastic about the fund and the share price fell.

Figure 2: Best performing funds in price terms in 2016

	%
Tejoori	+604.8
EPE Special Opportunities	+133.0
Industrial Multi Property	+104.1
BlackRock World Mining	+100.6
Baker Steel Resources	+98.3
Golden Prospect Precious Metal	+98.0
Alternative Liquidity Fund	+88.4
JPMorgan Russian	+87.4
Polo Resources	+74.1
BlackRock Commodities Income	+71.7

Source: Morningstar

Figure 3: Best performing funds in NAV terms in 2016

	%
Fast Forward Innovations	+207.3
EPE Special Opportunities	+123.9
Golden Prospect Precious Metal	+107.7
BlackRock World Mining	+89.8
JPMorgan Russian	+81.5
JPMorgan Brazil	+69.4
BlackRock Commodities Income	+68.0
UIL	+67.5
City Natural Resources	+61.2
Baring Emerging Europe	+57.3

Source: Morningstar

In Figure 4. The recovery in the oil price came too late to turn around the fortunes of **Nimrod Sea Assets** which was set up to lease vessels mainly to the offshore oil industry. The executive directors were replaced in 2016 and uninvested cash was returned to shareholders. The board are only ascribing value to three of its eight remaining investments. **Infrastructure India**'s performance looks even more woeful when compared to the strength of the Indian economy. Its most significant announcement in the year was the granting of a chunky fixed management fee to its managers.

Ludgate Environmental wrote down the value of its investments in 2016 but is now the subject of a bid and so may leave us soon. **Ottoman**'s former CFO was indicted and they hope to recover some of the cash he is said to have stolen. **Dolphin Capital** had another disappointing year but, in recent months, things have been improving with a number of disposals from the portfolio.

St Peter Port Capital's portfolio, largely comprising pre-IPO investments, was skewed towards early stage mining and oil & gas companies. Despite the recovery in these sectors, it is still hard to obtain finance for early stage companies and its NAV has suffered as a result. St Peter Port's board have said they will explore a sale of the whole portfolio.

Marwyn Value Investors saw its discount widen over 2016 despite its offer of a redemption opportunity to shareholders.

Figure 4: Worst performing funds in price terms in 2016

	%
Nimrod Sea Assets	-87.0
Infrastructure India	-56.1
Candover Investments	-55.6-
Ludgate Environmental	-49.3
Ottoman Fund	-48.0
Dolphin Capital	-41.4
LXB Retail	-37.9
Fast Forward Innovations	-35.6
St Peter Port Capital	-32.4
Marwyn Value Investors	-29.1

Source: Marten & Co, Morningstar

Figure 5: Worst performing funds in NAV terms in 2016

	%
Duke Royalty	-55.5
Ludgate Environmental	-54.7
Nimrod Sea Assets	-53.6
Candover Investments	-39.1
Amedeo Air Four Plus	-31.1
British & American	-29.1
Juridica	-25.8
Tejoori	-22.0
Doric Nimrod Air Three	-21.5
Origo Partners	-20.7

Source: Marten & Co, Morningstar

Duke Royalty made little progress with its new investment objective in 2016 but has just announced that it intends to try to raise £50m from investors to fund its proposed portfolio of royalty based investments.

The peculiarities of modern accounting had an adverse effect on many aircraft leasing companies including **Amedeo Air Four Plus** and **Doric Nimrod Air Three**, who had to adjust the sterling value of their dollar debt upwards without being able to make a corresponding adjustment to the sterling value of the planes they own.

British & American's large investment in biotech company, Geron, proved to be a volatile investment in 2016 (partly on the back of the changing political sentiment toward the biotech sector mentioned above). Trading in British & American's shares amplified the move and the fund often ended up as one of the worst or best performing funds in our monthly roundups of the investment company sector.

Juridica, which helps fund court cases in the hope of sharing in awards made to the litigants, had to write down the value of some of its investments. The board concluded that it made sense to run off the remaining portfolio and return the proceeds to shareholders.

Sticking with the legal theme. **Origo Partners** concluded its dispute with Brooks Macdonald, secured debt funding from a strategic investor and is working to sell-off its portfolio over the next couple of years.

Money in and out of the sector

New issues

Early concerns over the pace of Chinese growth gave way to worries about Brexit and the US election. This state of nervousness made it hard to launch new funds and, until the last few weeks of the year, it was looking as though **Hadrian's Wall Secured Investments** might be the only genuinely new fund launched in 2016. A flurry of issuance at the end of the year though saw three more funds launched including **Civitas Social Housing REIT**. This is an interesting fund and could herald the creation of an entirely new sub-sector for the investment companies market given the enormous demand for funding for social housing.

Figure 6: New fund launches

Fund	Launch	Issue size £m	Premium / (Discount) 31/12/16	Investment Focus
Hadrian's Wall Secured	20/06/16	80.0	9.7	Secured lending to UK Small and Medium sized Enterprises
Vietnam Enterprise [a]	05/07/16	n/a	(17.2)	Vietnamese equities
EF Realisation [b]	26/09/16	n/a	(52.2)	Rump portfolio of Ecofin Water & Power Opportunities
Ecofin Global Utilities & Infra. [b]	26/09/16	n/a	(15.6)	Utility and infrastructure companies in developed markets
Civitas Social Housing REIT	18/11/16	350.0	5.5	Homes let to local authorities and housing associations
BB Healthcare	02/12/16	150.0	2.7	Listed global healthcare companies
RM Secured Direct Lending	15/12/16	50..3	4.1	Secured lending to UK corporates

Source: Morningstar, Marten & Co

Notes:

a) Vietnam Enterprise was a pre-existing fund that decided to list in London.

b) EF Realisation and Ecofin Global Utilities & Infrastructure were the product of a reconstruction of Ecofin Water & Power Opportunities Trust.

Liquidations, de-listings and trading cancellations

We said goodbye to quite a few funds in 2016. In a bold move, **Henderson Global Trust** was reconstructed and its assets divided between **Bankers Investment Trust** and **Henderson International Income**. Shareholders did not seem to object to the lack of a cash exit, possibly reflecting the attractions of the two rollover funds.

The decline of the hedge fund sector continued with the wind up of **Dexion Absolute**, once the flagship fund in the sector. Many of Dexion's remaining stablemates seem destined for a similar fate.

Aurora Russia had struggled for many years, liquidators were appointed in March and a final distribution was made by them in August.

Private Equity Investor had been selling off its portfolio gradually but in August it was bid for and the deal was wrapped up by October.

Schroder Global Real Estate Securities never really proved popular with investors, despite the success of its competitor, **TR Property** (they both invested in property largely through shares in listed property companies). The company delisted in June 2016.

US Traded Life Interests always had the unfortunate need to wait for people to die for it to make money. In 2016 it was facing steeply rising premiums on its remaining life policies. Amid the uncertainty, it received a welcome bid for its portfolio and was wound up in December.

RAB Special Situations was once a large fund but it had been limping along for many years trying to make money from its portfolio of mostly early stage resources companies. It managed to sell its stake in the underlying Master fund and was wound up in June 2016.

JPMorgan Senior Secured Loan had a relatively brief life but lacklustre returns, insufficient scale and unsupportive shareholders led the board to sell off the portfolio and hand back the proceeds.

JPMorgan Income & Growth was a split capital company. It reached the end of its allotted life in 2016 and shareholders were offered a choice of cash or a rollover into **JPMorgan Elect**.

Money in and out of existing funds

While 2016 proved a difficult period to raise money for new funds, for tried and tested formats, especially funds producing decent levels of income from assets other than equities, significant inflows were achieved.

Figure 7: Money raised (31/12/16 values)

Fund	£m
Tritax Big Box REIT	596.1
Sequoia Economic Infrastructure	508.2
3i Infrastructure	435.9
Syncona	368.8
Greencoat UK Wind	274.7
International Public Partnerships	210.7
NextEnergy Solar	190.6
GCP Infrastructure	171.1
Primary Health Properties	168.4

Source: Marten & Co, Morningstar

Figure 8: Money returned (31/12/16 values)

Fund	£m
Highbridge Multi Strategy	-554.8
SVG Capital	-442.6
BH Macro	-401.9
Alliance Trust	-209.0
NB Global Floating Rate	-187.3
Witan	-170.1
Mercantile	-131.6
Templeton Emerging	-117.6
Electra Private Equity	-95.0

Source: Marten & Co, Morningstar

The table in Figure 7 is topped by **Tritax Big Box REIT** which now has a £1.5bn market capitalisation. **Primary Health Properties**, like Tritax, offers a way of receiving income from a niche area of the property market. The table also shows that the demand for infrastructure and renewable infrastructure related assets continues unabated with substantial amounts of money raised for **Sequoia Economic Infrastructure**, **3i Infrastructure**, **Greencoat UK Wind**, **International Public Partnerships**, **NextEnergy Solar** and **GCP Infrastructure**. The only other fund that features in the list is **Syncona** (formerly BACIT) which both raised fresh capital and expanded by absorbing funds set up by Wellcome Trust and Cancer Research UK.

At the same time, as Figure 8 shows, the hedge fund sector continued to shrink. Lacklustre returns generated by some hedge funds continued to turn some investors off the sector and **Highbridge Multi Strategy** and **BH Macro** were two of the funds that returned the most capital in 2016.

SVG Capital, which has had a longstanding commitment to return surplus capital to shareholders, continued to shrink but, towards the end of the year, it moved to wind itself up following the sale of its remaining portfolio to Harbourvest.

Alliance Trust reinvented itself yet again in 2016, it is now a multi-manager / best ideas fund. Many shareholders seem to have voted with their feet over 2016, aided by the trust's active buy-back policy. The fund now has some work to do to convince investors to stick with it in its new guise.

NB Global Floating Rate Income's NAV returns picked up in 2016 but the fund continued to repurchase its shares aggressively.

Aviva inherited significant stakes in many long-established funds and decided to sell these. **Witan** and **Mercantile** were two of the affected funds.

Fears over the pace of Chinese growth and possible adverse impacts of President Trump's trade policies turned investors off emerging markets funds, hitting the flagship fund in the sector, **Templeton Emerging Markets**.

Electra's new board decided to return some cash to shareholders via a tender offer.

Significant rating changes

Figure 9: Biggest changes in discounts and premiums by sector over 2016, ranked by sector median

Sector	Greatest improvement in rating	%	Change in sector median. %	Greatest deterioration in rating	%
Leasing	Amedeo Air Four Plus	+66.1	25.5	Nimrod Sea Assets	-61.1
Natural Resources	Baker Steel Resources	+24.2	10.6	Tiger Resource Finance	-15.2
Private Equity	Northern Investors	+30.1	5.7	FastForward Innovations	-518.9
Renewables	Renewables Infrastructure	+10.8	5.2	NextEnergy Solar	+1.3
North America	BlackRock North American	+9.7	4.7	Gabelli Value Plus-	-3.7
Infrastructure	Vietnam Infrastructure	+18.4	4.1	Infrastructure India	-22.2
Biotech / Healthcare	Polar Capital Global Health	+4.9	4.0	International Biotechnology	+1.8
UK Property	Industrial Multi Property	+35.3	2.5	AEW UK REIT	-4.8
Global Equity Income	Murray International	+6.9	0.7	F&C Managed Portfolio Inc	-2.2
Asia ex Japan	Schroder Asia Total Return	+6.1	-0.2	Aberdeen Asian Income	-1.5
Flexible Investment	New Star Investment Trust	+5.2	-0.3	BlackRock Income Strat	-12.0
Debt	Duet Real Estate Finance	+38.8	-0.7	P2P Global Investments	-20.0
Global Emerging	Aberdeen Frontier Markets	+3.3	-0.7	Africa Opportunity C	-8.1
Global	Lindsell Train	+32.6	-1.9	Majedie	-8.8
Japan	Baillie Gifford Shin Nippon	+1.8	-2.6	JPMorgan Japan Smaller	-7.6
Hedge	Boussard & Gavaudan GBP	+6.9	-3.0	Third Point Offshore GBP	-10.4
UK Income & Growth	British & American	+70.5	-4.0	Lowland	-10.2
UK	Aurora.	+4.8	-4.2	Henderson Opportunities	-13.8
European Property	Taliesin Property	+27.4	-6.6	Ottoman Fund	-88.0
UK Smaller Co.s	Henderson Smaller Co.s	-1.2	-10.0	Strategic Equity Capital	-15.1
Europe	BlackRock Greater Europe	-4.2	-10.1	JPMorgan European Inc	-12.9

Source: Marten & Co, Morningstar

Figure 9 shows how discounts moved on a sector by sector basis. The significant increase in the premium of the leasing companies reflects the fall in the NAV of these companies as a result of the accounting issue discussed above.

The increase in interest in the natural resources sector is evident in the table. Investors also began to better appreciate the attractions of the private equity sector. **FastForward Innovations** was, as mentioned above, rated too highly by investors at the start of 2016. Impressive NAV performance and a fall in the share price helped bring its premium down though it remains high (37.7% at the end of 2016).

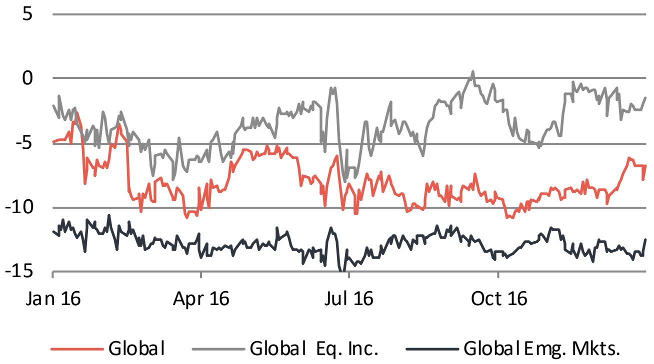
The ongoing demand for infrastructure, renewable infrastructure and property that produces income is evident in Figure 9 as is the resurgence of North American focused funds following Trump's election.

In the middle of the table a few fund's stand out. **Industrial Multi Property** was the subject of a tussle between its largest shareholder and its board and its portfolio may now be sold off. **Duet Real Estate Finance** has been running off its loan portfolio for some time. It has just announced that it is planning another return of cash to shareholders. **P2P Global** has been suffering as some of its securitised debt investments went sour and investors started to lose faith in the fund, a problem shared by competitor, **VPC Speciality Lending**. **Lindsell Train**'s premium rose, possibly reflecting the value being ascribed to its stake in its management company by investors. We should also mention **British & American** where, as mentioned above, the vacillations in the value of its largest investment left it sitting on a large premium.

The bottom of the table is occupied by UK and European focused funds. There is a big disparity in the performance of the funds that make up the European property sector. **Taliesin**'s focus on Berlin residential property proved beneficial to it while **Ottoman**'s problems, including the alleged theft of money by its CFO, helped its discount widen.

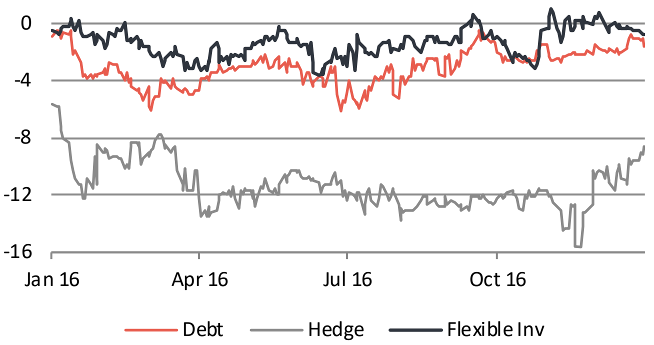
In UK focused sectors, funds with significant exposure to larger companies, particularly those with significant overseas revenues benefitted from weak sterling while investors shied away from more domestically oriented smaller companies.

Figure 10: Changes to median discount - Global



Source: Marten & Co, Morningstar

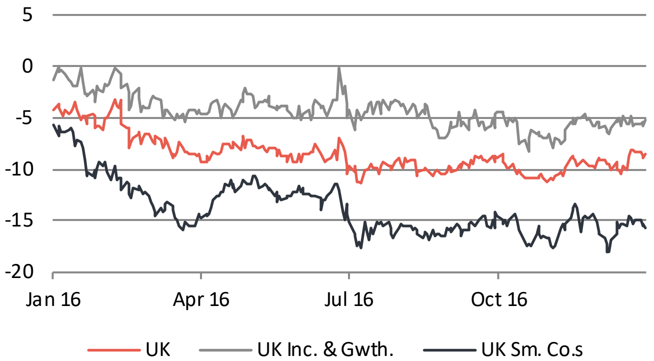
Figure 11: Changes to median disc. – Debt, Hedge and Flexible Investment



Source: Marten & Co, Morningstar

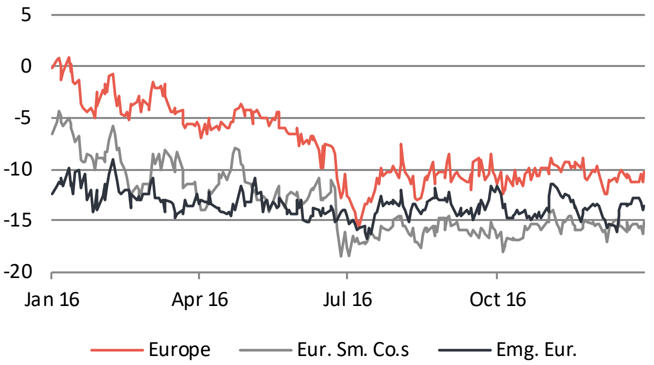
The sudden fall in sterling following the result of the UK's referendum on EU membership is obvious in many of the graphs in Figure 10 as NAV's soared initially and share prices took a while to catch up.

Figure 12: Changes to median discount - UK



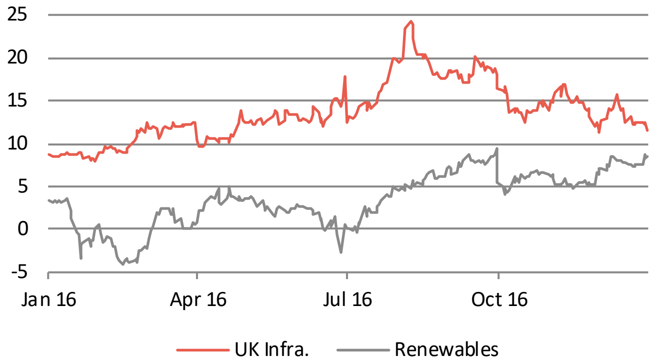
Source: Marten & Co, Morningstar

Figure 13: Changes to median discount - Europe



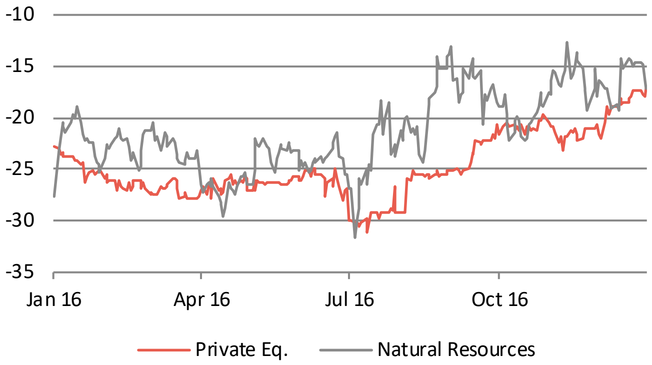
Source: Marten & Co, Morningstar

Figure 14: Changes to median discount – UK Infrastructure and Renewable Infrastructure



Source: Marten & Co, Morningstar

Figure 15: Changes to median discount – Natural Resources, Private Equity



Source: Marten & Co, Morningstar

Major news stories

- Electra announced a strategic review, put its manager on notice
- Henderson Global Trust asked its shareholders to rollover their investment into either Bankers Investment Trust or Henderson International Income
- M&G High Income announced some information about what will happen when it reaches the end of its planned life in 2017
- Law Debenture started trying to put a fair value on its fiduciary business
- Jupiter Global became Jupiter UK Opportunities
- BlueCrest All Blue became Highbridge Multi Strategy Fund
- Katherine Garret-Cox left Alliance Trust. It subsequently decided it should become a multi-manager / best ideas fund.
- Atlantis Japan came under fire from LIM Asia Multi Strategy
- Both Fidelity China and Scottish Mortgage said they would invest more in unlisted securities
- Rights & Issues scrapped its split capital structure
- JPEL Private Equity and Dunedin Enterprise joined the ranks of many other private equity funds in managed wind down of their portfolios
- Many JPMorgan Income & Growth shareholders rolled over into JPMorgan Elect
- Alpine Select took control of Altin
- RIT Capital approached Alliance Trust with the idea of a merger but later withdrew
- Ecofin Power & Water Opportunities was reconstructed
- Value & Income will offer shareholders a cash exit but not until 2027
- SVG Capital had a bid approach from Harbourvest
- BlackRock Income Strategies announced a strategic review and decided to merge with Aberdeen UK Tracker
- Private Equity Investor was taken over
- US Traded Life Interests sold its portfolio
- An activist appeared on British Empire's share register
- JPMorgan Overseas became JPMorgan Global Income & Growth
- Gresham House took over the management of LMS Capital
- BH Macro offered investors a 100% cash exit
- BACIT became life sciences company, Syncona
- Fair Oaks Income said it will launch a new master fund
- London & St Lawrence launched a strategic review
- Ludgate Environmental was bid for
- New City Energy decided to wind up
- Chenavari Capital Solutions decided it would run-off its portfolio and return cash to shareholders
- Industrial Multi Property fought off an attempt to remove its non-executive directors and got permission from shareholders to entertain bids for its portfolio.
- Standard Life European Private Equity decided to broaden its remit

Outlook for 2017

Rather than us pontificating on how events may unfold in 2017, here are a few recent comments drawn from a few our clients that you may find interesting. Look out too for our forthcoming notes on Fidelity's funds and Standard Life European Private Equity (soon to become Standard Life Private Equity) which will have more on the current thinking of the managers of those funds.

Peter Elston, CIO of Seneca Investment Managers and co-manager of Seneca Global Income & Growth, writes a regular investment letter aimed at professional investors. The latest points out that, although theoretically investors expect higher returns from riskier (more volatile) investments, in many asset classes this has not been the case. He concludes from his analysis of the figures that "over the next ten years, returns from safe haven bonds will be poor, returns from risky bonds will be moderate, and returns from equities will be moderate to good".

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Baillie Gifford, managers of Pacific Horizon, regularly publish their thoughts on various investment themes. One that caught our eye, being relevant to Pacific Horizon, was a piece on China by Roderick Snell. He says that China's economy is rebalancing with over 50% of GDP and 90% of GDP growth coming from China's consumer and services sectors. What is more, Chinese consumers are embracing the modern world at a rapid pace - how about this for a statistic: "whereas eBay's total worldwide merchandise value for 2015 stood at around $80 billion, the online Chinese retailer Alibaba generated $14 billion of gross merchandise sales in just a single day last year".

Roderick says Chinese consumers are becoming more affluent and this is changing the mix of products that they buy. The way they buy them is changing too – the size of the Chinese ecommerce market is twice that of the US. Baillie Gifford also believe that some Chinese technology companies are eclipsing their western peers in terms of technology and functionality – they cite Tencent's WeChat messaging app as an example of this.

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Ocean Dial, managers of India Capital Growth, have a regular publication "India: A view from the ground" that provides invaluable insight into the Indian market. In the latest issue, they look at the controversial "demonetisation" of the Indian economy – recently the government withdrew most bank notes from circulation in an attempt to force a shift away from a cash economy (hopefully leading to a higher tax take). The measure has unnerved foreign investors in India but domestic investors have been net buyers of Indian equities. Nevertheless, the market is 10% of so off its highs. Ocean Dial believe the disruption caused by demonetisation will prove temporary though they think the immediate benefit to government finances is lower than expected.

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Stuart Widdowson, manager of Strategic Equity Capital, believes valuations in the UK small cap market have become polarised with a number of companies perceived to have higher quality earnings and / or earnings momentum on high valuations. He thinks this leaves them vulnerable to sharp de-rating in the event of earnings disappointment. He is concerned about a lack of liquidity in the UK small cap market but doesn't see much on the horizon that would alleviate the problem.

Stuart thinks that in the current environment it pays to adopt a selective investment approach and have funds available ready to take advantage of market volatility. Potential sources of volatility include the uncertain impact of Brexit, wider concerns about economic growth and political upheaval elsewhere in the world including a possible European banking crisis.

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