

Third Quarter of 2017

QuotedData news

Markets moved up a little over the course of the three months ended 30 September 2017. Regionally, emerging markets did well. The pound strengthened a bit relative to the US dollar but was flat against the euro. The oil price rose by more than 20%. In the investment companies sector, there were quite a few new issues.

New research

Over the quarter, we published notes on **Aberdeen Emerging Markets**, **JPMorgan Russian**, **Seneca Global Income & Growth**, **John Laing Environmental Assets**, **Strategic Equity Capital**, **Fidelity Asia**, **Fidelity Japan**, **Fidelity Special Values**, **Premier Energy & Water**, **Herald Investment Trust** and **Standard Life Private Equity**. You can read all of these notes, and more, by clicking on the links embedded above or by visiting www.quoteddata.com.

In this issue

Performance Data – hurricanes knock **CatCo Reinsurance Opportunities** and **Blue Capital Alternative Income**.

Money in and out of the sector – Net £1.7bn floods in as seven new funds launched

Significant rating changes – investors piled into **Syncona** as it made its first significant disposal

Major news stories – **Pantheon International** combined its ordinary and redeemable share classes.

We are delighted that QuotedData's note on Pacific Horizon, **Brave New World**, was awarded Highly commended at the 2017 Investment Week Research Awards

All investment companies median discount

Time period 01/10/2016 to 30/09/2017



Source: Morningstar, Marten & Co

The median discount across all funds is still on a narrowing trend.

UK infrastructure funds median discount

Time period 01/10/2016 to 30/09/17



Source: Morningstar, Marten & Co

The median premium for funds investing predominantly in UK infrastructure has reduced over the past year. NAVs are released infrequently and this distorts the chart (as the sharp drop in the graph at the end of June illustrates). At the end of September, comments made at The Labour Party conference about PFI deals unnerved this subsector a little but the impact has been fairly marginal, so far.

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, funds investing in UK smaller companies and Latin America had a decent quarter. Some fairly savage moves in discounts/premiums took their toll on a handful of funds.

Looking first at the positive moves:

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

	%
Independent	+22.3
Better Capital 2012	+20.9
Dragon Ukrainian Properties	+19.0
JPMorgan Brazil	+18.4
BlackRock Latin American	+18.1
Better Capital 2009	+18.0
Syncona	+17.6
European Real Estate	+17.3
Baker Steel Resources	+17.2
River & Mercantile UK Micro Cap	+16.2

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

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

	%
JPMorgan Brazil	+16.5
BlackRock Latin American	+14.3
Atlantis Japan Growth	+11.8
JPMorgan Smaller Companies	+11.0
Independent	+10.9
JPMorgan Russian Securities	+10.7
BlackRock World Mining	+10.7
JPMorgan Chinese	+10.0
Chelverton Smaller Companies Dividend	+9.0
JPMorgan European Smaller Companies	+8.7

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

- **Independent**, **River & Mercantile UK Micro Cap**, **JPMorgan Smaller Companies** and **Chelverton Small Companies Dividend** all feature in the tables thanks to the exposure that they have to the UK smaller companies market, which did well in the quarter.
- The two **Better Capital** share classes performed well after Jon Moulton, the manager bought more shares in the **2012** fund.
- **Dragon Ukrainian Properties** was subject to a bid by Dragon Capital at 15p a share but at the end of the quarter they announced the NAV was about 45 cents a share.
- **JPMorgan Brazil** and **BlackRock Latin American** had a strong quarter. The Brazilian market is shrugging off the latest corruption allegations against President Temer.
- **Syncona** benefitted as one of its investments, NightstarX, was listed in an IPO.
- **European Real Estate** sold its last investment and will return cash to shareholders.
- **Baker Steel Resources** and **BlackRock World Mining** both feature. In addition to a rising gold price, China released positive manufacturing numbers in August and that helped commodities funds as well as **JPMorgan Chinese**. The real boost to Chinese stocks came from its technology sector, however.
- It wasn't just small companies in the UK that had a good quarter, so did their counterparts in Japan and Europe. **Atlantis Japan Growth** just managed to issue £9m of new shares in the last exercise of its subscription rights. Economic growth seems to be picking up in Europe. **JPMorgan European Smaller Companies** was a beneficiary of this.
- **JPMorgan Russian**, we wrote a **note** on the company during the quarter that highlighted the manager's belief that the Russian market is very cheap.

On the negative side:

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

	%
Qannas Investments	-32.2
British & American	-26.3
CatCo Reinsurance Opportunities	-20.6
Pershing Square Holdings	-16.5
Duke Royalty	-13.5
Blue Capital Alternative Income	-12.1
JZ Capital Partners	-11.5
LXB Retail Properties	-11.1
Globalworth Real Estate Investors	-10.9
LMS Capital	-10.0

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

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

	%
British & American	-15.7
Pershing Square Holdings	-7.4
Vietnam Holding	-7.0
Weiss Korea Opportunity	-6.8
Gresham House Strategic	-6.8
Qatar Investment Fund	-6.8
Golden Prospect Precious Metals	-6.6
CatCo Reinsurance Opportunities	-5.4
Infrastructure India	-5.3
Qannas Investments	-4.5

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

- **Qannas Investments'** shares were de-rated savagely after it announced its interim results at the end of the quarter. It has been busy selling investments and reported a small drop in its NAV.
- **British & American's** largest investment, biotech company - Geron, fell by 21% over the quarter. The fall in NAV may have helped nudge its premium lower but this remains high.
- **CatCo Reinsurance Opportunities** and **Blue Capital Alternative Income** both made statements about the impact of the Caribbean hurricanes on their reinsurance portfolios. CatCo is talking about raising additional capital.
- **Pershing Square Holdings** is buying back its stock but, without any sign of improved NAV performance, its shareholders are still selling and the discount is widening.
- **Duke Royalty** saw a moderation in its premium despite paying its first dividend.
- **JZ Capital Partners'** share price has been sliding since May. The board are yet to buy back stock despite its widening discount, which is now around 33%.
- **LXB Retail Properties** announced that planning consent is taking longer to come through than expected for its Rushden Lakes project.
- **Globalworth Real Estate Investors'** discount widened temporarily around the end of the quarter.
- **LMS Capital** and **Gresham House Strategic** have the same manager. LMS fell after completing its latest tender. Gresham House Strategic is biding its time and looking for investment opportunities. In the meantime it is holding large amounts of cash.
- **Vietnam Holding** saw a major shake-up in its board as a large investor expressed disappointment in performance this year.
- **Weiss Korea Opportunity** gave up some of this year's gains. Sabre rattling by North Korea may have had an effect on sentiment.
- **Qatar Investment Fund** has been caught in the crossfire as Qatar fell out with its neighbours. Since the quarter end, Qatar Investment Fund has decided to widen its investment remit to encompass the entire Gulf region.
- **Golden Prospect Precious Metals'** discount has widened despite the higher gold price.
- **Infrastructure India's** auditors refused to sign off on its accounts given the company's precarious funding situation.

Money in and out of the sector

It was a bumper quarter for new issues and fund raising with very little flowing the other way. About £1.7bn net flowed into the sector.

Figure 5: Money entering the sector in Q3 2017

	£m
Greencoat Renewables	€270.0
Triple Point Social Housing REIT	200.0
Residential Secure Income REIT	180.2
Warehouse REIT	150.0
Empiric Student Property	110.0
Supermarket Income REIT	100.0
Gabelli Merger Plus+	\$100.1
GCP Student Living	70.0
GCP Infrastructure	70.0
BB Healthcare	64.1

Source: Morningstar, * approximate value of additional capital at 30/09/2017

Figure 6: Money leaving the sector in Q3 2017

	£m
DW Catalyst	52.6
Invesco Asia	39.2
Alliance Trust	23.7*
Templeton Emerging Markets	17.8*
NB Global Floating Rate	17.7*
Mercantile	16.5*
Scottish Investment Trust	15.0*
Jupiter US Smaller Companies	14.8*
British Empire	14.1*
Pershing Square Holdings	14.1*

Source: Morningstar, * approximate value of shares bought back at 30/09/2017

Money coming in:

- **Greencoat Renewables** is a new investment company from the same stable as Greencoat UK Wind. Its initial focus is on wind farms in Ireland but it may expand beyond that to other Eurozone countries.
- **Triple Point Social Housing REIT** is a fund focused on the social housing sector. One of our analysts wrote an **article** on it for Investment Trust Insider which explains how it works.
- **Residential Secure Income REIT** is another fund investing in social housing.
- **Warehouse REIT** is buying “well located freehold and long leasehold warehouses”.
- **Empiric Student Property** is funding a 166 bed development in Edinburgh and a development in Bristol as well as acquiring a 98 bed property in Liverpool.
- **Supermarket Income REIT** has spent all the money it raised on three supermarkets.
- **Gabelli Merger Plus+** is a merger arbitrage fund. It will pay a yield from capital and so has been assigned to the global equity income sector by the AIC.
- **GCP Student Living** is funding a development in Brighton.
- **GCP Infrastructure** committed £140m to loan notes issued by the Green Investment Bank.
- **BB Healthcare** topped up its share capital as its directors said they were encouraged by its NAV performance since launch and continued to see an attractive investment opportunity.
- **John Laing Environmental Assets** raised £40m and made its first foray into the anaerobic digestion market. We wrote a **note** on the company in the quarter.
- **Polar Capital Global Financials** expanded as its subscription shares were exercised. The company saw an inflow of £35.2m.

Also, a number of funds continued to issue stock, almost daily, to meet demand. This list is headed by **Personal Assets** which issued shares that were worth £37m at the end of the quarter.

Money going out:

- **DW Catalyst** appointed liquidators early in August and delisted.
- **Invesco Asia** held a tender offer for 15% of its shares. 59% were tendered and 12.5m repurchased and cancelled.
- **Alliance Trust** is still buying back shares but at a much slower pace than in Q2.
- **Templeton Emerging Markets** continues to shrink despite decent returns from emerging markets in the quarter and it leading its peer group in performance over the short term.
- **NB Global Floating Rate's** issued share capital continues to shrink, by over 20% over the past three years.
- **Mercantile** was congratulating itself at the end of the quarter for beating its benchmark by 5.5% over the year to end July 2017. Its discount is around 10% however.
- **Scottish Investment Trust's** NAV performance is towards the bottom of its peer group over the past year.
- **Jupiter US Smaller Companies** has lagged **JPMorgan US Smaller Companies** by some distance over the past couple of years.
- **British Empire** had a burst of decent performance but its NAV returns are now back in the middle of the pack over one year and fourth quartile over five years.
- **Pershing Square Holdings** is showing no signs of turning its performance around.

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*Source Baillie Gifford & Co As with all stock market investments, your capital is at risk

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Significant rating changes

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

	30/06/17	30/09/17
	%	%
Syncona	+16.4	+36.0
European Real Estate	-6.4	+9.8
Baker Steel Resources	-34.8	-22.1
Phoenix Spree Deutschland	-0.1	+11.9
Primary Health Properties	+28.4	+40.1
Better Capital 2012	-45.5	-34.1
Lindsell Train	+11.9	+23.1
Independent	-7.1	+2.6
Secure Income REIT	-2.7	+6.5
Pantheon International Red.	-25.1	-16.9

Source: Morningstar, Marten & Co

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

	30/06/17	30/09/17
	%	%
Qannas Investments	+11.1	-21.1
British & American	+102.1	+76.7
Duke Royalty	+35.0	+17.0
CatCo Reinsurance Op.s	+5.9	-11.1
LXB Retail Properties	-6.2	-16.5
Globalworth Real Estate	-8.7	-19.0
Blue Capital Alternative Income	-5.7	-15.5
Empiric Student Property	+6.1	-3.3
Ground Rents Income	-2.8	-11.8
Pershing Square Holdings	-15.4	-23.8

Source: Morningstar, Marten & Co

Getting more expensive

- **Syncona** made its first significant disposal as NightstarX listed on NASDAQ; investors may be anticipating gains across the rest of its portfolio.
- **European Real Estate** sold its last property.
- **Baker Steel Resources** may have been cheered by a rising gold price and signs that the Chinese economy was improving.
- German residential property fund, **Phoenix Spree Deutschland** has been trading at a discount to its peer, **Taliesin**, for some time.
- **Better Capital 2012** rallied after its manager bought some shares.
- **Lindsell Train**'s premium continues to see-saw as some investors ignore warnings from its manager.
- **Independent** has been performing well but has no plans to grow and so the supply of its shares is limited.
- **Secure Income REIT** has warned that property prices in its part of the market are looking expensive.
- **Pantheon International** announced that it would combine its ordinary and redeemable share classes.

Getting cheaper

- **Qannas** reported a small drop in its NAV as it continued to consolidate its portfolio. Its share price plummeted on the news, however. There could be a large seller around.
- **British & American** saw its premium moderate a little but it is still very expensive.
- **Duke Royalty** has just made a new deal but its premium was a bit high.
- **CatCo Reinsurance Opportunities** and **Blue Capital Alternative Income** have fallen as the recent Caribbean hurricanes have hurt their NAV. CatCo has set aside 20% of its NAV in provisions against these potential losses.
- **LXB Retail Properties** said planning permission at its Rushden Lakes development had been delayed.

- **Globalworth Real Estate**'s discount widening proved temporary; its share price has recovered since the quarter end.
- **Empiric Student Property** was hit when a note by Numis, a broker, pointed out that its dividend was uncovered.
- **Ground Rents Income** has been caught up in the adverse publicity around leasehold property. It took steps to address the situation in its own portfolio.
- **Pershing Square Holdings** continues to disappoint investors.



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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%

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*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.

Major news stories

Portfolio developments

- **International Public Partnerships** made a commitment to invest in digital infrastructure
- **Greencoat UK Wind** bought several wind farms
- **Riverstone Energy's** Sierra Oil & Gas made a major discovery
- **Amedeo Air Four Plus** bought a couple of planes
- **HICL Infrastructure** bought the HS1 channel tunnel rail link
- **Oakley Capital** reported that TA Associates had invested in Inspired
- **Marwyn's** Zegona sold Telecable and the company topped up its stake in Wilmcote
- **ICG Enterprise** sold Standard Brands
- **SQN Secured Income** said the fund was fully committed to investments
- **VinaCapital Vietnam Opportunities** invested in a toll road operator and a mobile phone distributor
- **Dunedin Enterprise** sold Blackrock PM
- **Kubera Cross Border** sold Synergies Casting
- **Renewables Infrastructure** said it was investing in a battery storage project
- **FastForward** said its Schoold investment was merging with Lingo Media
- **VinaLand** sold its stake in My Gia and its Vina Square project
- **Hg Capital** sold Sequel
- **Macau Property Opportunities** updated on Typhoon Hato
- **NextEnergy Solar** bought two solar plants
- **John Laing Environmental** bought an anaerobic digestion plant
- **CatCo Reinsurance Opportunities** made a statement on hurricane Harvey
- **Syncona** said NightstarX had IPO'd and backed a fundraise for Autolus
- **Adamas Finance Asia** is selling Global Pharm
- **Global Fixed Income Realisation** sold its Indonesian asset
- **SQN Asset Finance Income** announced that Suniva had won its trade case
- **Global Resources** wrote up the value of its Bougainville investment
- **Blue Capital Alternative Income** made a statement on the recent hurricanes
- **Foresight Solar** bought a solar farm in Australia

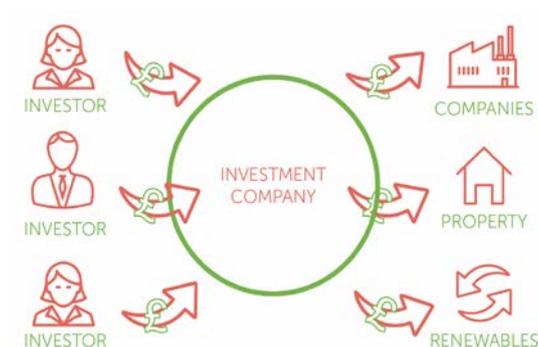
Corporate news

- **DW Catalyst** called a liquidation EGM
- **LMS Capital** announced a tender offer
- **Aberdeen Emerging** announced a new dividend policy
- **Witan** borrowed £30m for 37 years
- **VinaCapital Vietnam Opportunities** introduced a dividend policy
- **Africa Opportunity** finally merged its C shares

- **Blue Capital Alternative Income** said it was looking at ways of addressing its discount
- **Jupiter Dividend & Growth** has the option of a rollover into Jupiter UK Growth
- **Atlantis Japan Growth** will scrap its subscription rights
- **Pantheon International** said it would combine its share classes
- **Infrastructure India**'s auditor refused to give an opinion on its accounts

Managers & fees

- David Goldman became co-manager of **BlackRock Income & Growth**
- **Alternative Liquidity**'s manager moved to Warana Capital LLC, taking the fund with him
- **Phaunos Timber**'s manager resigned
- **Vietnam Enterprise** adjusted its fee structure
- **BlackRock Throgmorton** reduced its base fee but increased its performance fee
- **Aberdeen Emerging** adjusted its fees
- **India Capital Growth**'s manager was acquired by a firm backed by KKR
- **Scottish American** handed over the reins to its deputy managers
- **Starwood European** made some changes to its management agreement
- **Witan Pacific** diversified its manager line up
- **Murray Income** cut its fees
- **Strategic Equity Capital**'s board said it was looking at fee levels
- **UK Mortgages** cut its management fee



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