Annual report | Investment companies

January 2019

2018 review of the year

2018 – the return of volatility

A trade war, Brexit, US interest rate rises, slowing Chinese growth, a US government shutdown, a dispute over Italy's budget, the Skripal poisonings, numerous elections – there was plenty to worry about in 2018.

- A last-minute dive left the US market in negative territory.
- Sterling continued to weaken.
- The Chinese currency weakened against the US dollar.
- Chinese domestic stocks were amongst the worst performing over the year.
- The oil price see-sawed, breaking $86 in early October before crashing to close to $50 in December.
- The shine came off growth stocks in September and the technology sector was hardest hit.

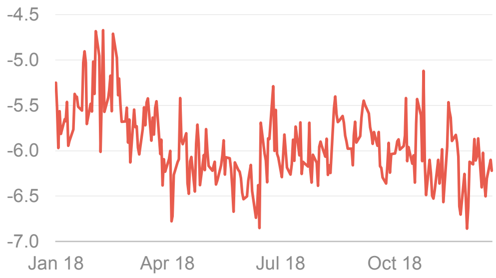
For 2019, caution is the watchword as commentators eye tightening monetary policy and politics weigh on markets (see page 16).

At QuotedData, we:

- relaunched our website – www.quoteddata.com – this includes a new Events section, please have a look if you haven't already;
- published 37 notes on investment companies (see page two) as well as our regular monthly and quarterly publications (we plan to expand our coverage further in 2019);
- published the second edition of our Independent Guide to Investment Companies (if you know anyone who is considering investing in investment companies for the first time or who wants to deepen their understanding of the sector, please do pass this on); and
- established a close relationship with Master Investor, the biggest UK private investor show – we'll be at their London show at the Business Design Centre in Islington on 6 April 2019 – we'd love to see you there.

Investment companies sector median discount

Time period 01/1/2018 to 31/12/2018



Source: Morningstar, Marten & Co

Exchange Rate	31/12/18	Chg. on year (%)
GBP / USD	1.2754	(5.6)
USD / EUR	0.8722	4.7
USD / JPY	109.69	(2.7)
USD / CHF	0.9821	0.8
USD / CNY	6.8754	5.7

MSCI Indices rebased to 100

Time period 01/01/2018 to 31/12/2018

Source: Bloomberg and Marten & Co. Figs in GBP

	31/12/18	Chg. on year (%)
Oil (Brent)	53.80	(19.5)
Gold	1282.49	(1.6)
US Tsy 10 yr yield	2.6842	11.6
UK Gilt 10 yr yield	1.277	7.3
Bund 10 yr yield	0.239	(43.5)

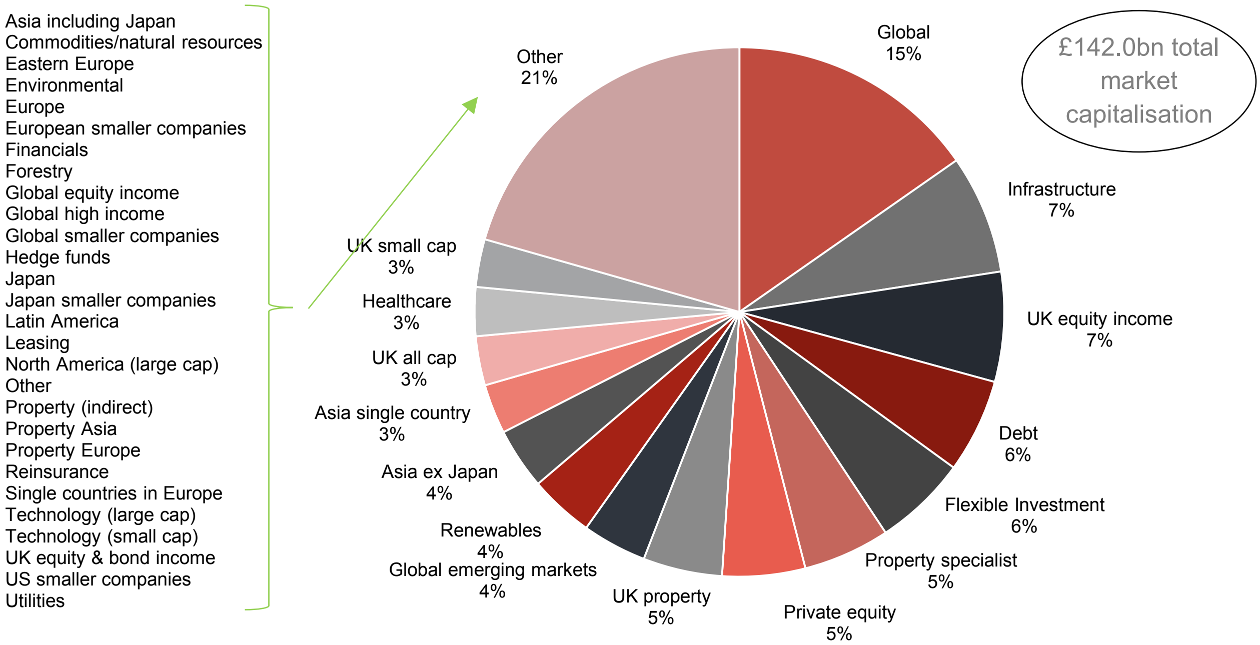
Investment company notes published in 2018

- Seneca Global Income & Growth – Walk the walk
- JPMorgan Multi-Asset Trust – Long-term objective of 6% per annum
- India Capital Growth – Moving to the main board
- RIT Capital Partners – Healthy absolute return with less risk
- Blue Capital Alternative Income – Wind blown but still standing
- Global Diversified Infrastructure – Does what it says on the tin!
- John Laing Environmental Assets – Anaerobic diversification
- Fidelity Closed-End Funds Review – March 2018
- Aberdeen Frontier Markets – No closet tracker
- CQS New City High Yield – “Conservative and boring”
- Ecofin Global Utilities and Infrastructure – On the contrary …
- Premier Global Infrastructure Trust – Swings and roundabouts
- JPMorgan Russian Securities – Beyond politics
- Aberdeen Emerging Markets – 10.6% a year for 20 years
- Herald Investment Trust – From small acorns …
- Seneca Global Income & Growth – Cutting back on equities
- Civitas Social Housing – Socially beneficial investing
- India Capital Growth – A return to earnings growth
- Standard Life Private Equity – Putting capital to work
- International Biotechnology – Outperformance and income
- Strategic Equity Capital – Confident despite short-term setback
- Jupiter Emerging and Frontier Income – Off to a great start
- CG Asset Management – Focus on absolute returns
- BlackRock Throgmorton Trust – Vision, execution and adaptability
- John Laing Environmental Assets – Diversification benefits shine through
- CEIBA Investments – Unique access to Cuba
- Seneca Global Income & Growth – Mind the (inflation) gap!
- Henderson Diversified Income Trust – ‘Winter is coming’
- Aberdeen New Dawn – Market setback creates opportunities
- Ecofin Global Utilities and Infrastructure – Staying nimble
- Shires Income – Sustainable high yield
- The North American Income Trust – Reasons to be cheerful
- The Global Sustainability Trust – “Creating a better world”
- Pacific Horizon – Pause for breath
- CQS New City High Yield – Escalators do not go to the sky!
- India Capital Growth – Shakeout uncovers value
- Aberdeen Frontier Markets – Incentivised to perform

In this issue

The sector at the end of 2018

Figure 1: Split of the investment company market by AIC sector at 31 December 2018



Source: Morningstar, Marten & Co

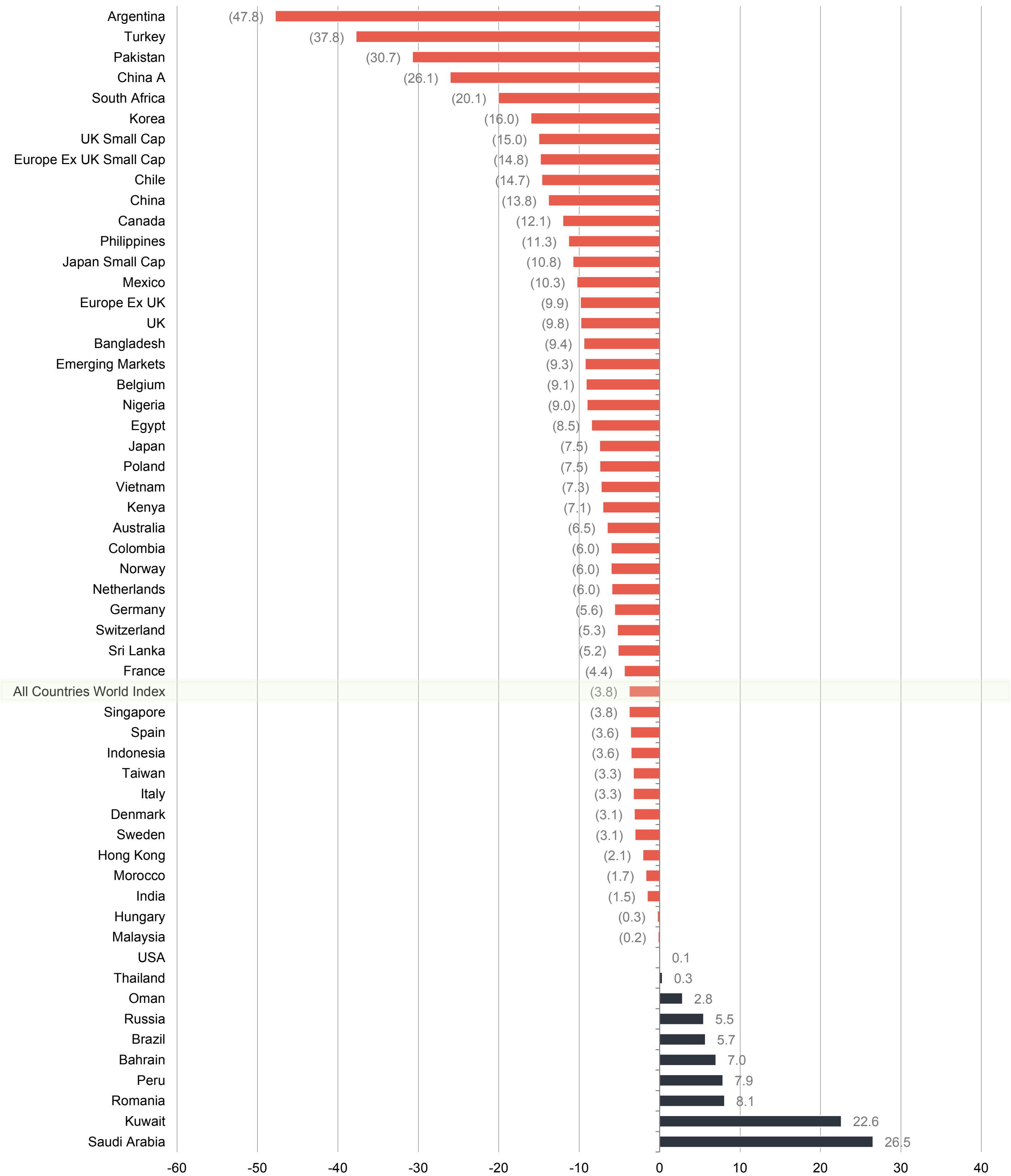
The investment companies sector shrank by £3.9bn over the course of 2018, market movements account for most of that. As Figure 2 shows, most markets ended the year in negative territory. Four sectors (Leasing, Renewable energy, Infrastructure and Debt) managed to make money on average in 2018.

The median discount for investment companies as a whole widened from 5.2% to 6.8% (as you can see in in the graph on the front page).

22 new issues contributed £3.6bn to the sector and existing funds raised £5.5bn but a few big funds left us, leaving a net inflow of £5.2bn.

Performance Data

Figure 2: Performance of a selection of MSCI indices over 2018



Source: Morningstar, Marten & Co

Performance by sector

Figure 3 shows how the major investment company sectors performed over the course of 2018 in price terms, and the best and worst funds in each category. In a reversal of the state of affairs in 2017, almost every sector lost money on average over the course of 2018. However, funds that generate income from areas that do not move in line with equity markets did relatively well.

Figure 3: Best and worst performers by sector in price terms over 2018, ranked by sector median

Sector	Best performing Fund	change %	Sector median. %	Worst performing Fund	Change %
Leasing	Doric Nimrod Air One	21.2	**13.1**	SQN Asset Finance Income C	1.6
Renewable energy	Bluefield Solar Income	11.4	**8.0**	John Laing Environmental Assets	0.6
Infrastructure	3i Infrastructure	22.2	**5.5**	International Public Partnerships	2.4
Debt	BioPharma Credit	15.3	**1.9**	Blackstone/GSO Loan Financing	(12.9)
Property specialist	GCP Student Living	7.4	**(0.6)**	Residential Secure Income	(9.2)
Biotech / healthcare	Syncona	32.8	**(1.5)**	Biotech Growth	(19.9)
UK property	LXi REIT	21.4	**(2.3)**	Standard Life Invest Prop Inc	(8.3)
Private equity	JPEL Private Equity	10.7	**(2.9)**	EPE Special Opportunities	(32.3)
North America	BlackRock North American	2.7	**(4.0)**	Gabelli Value Plus+	(11.4)
Flexible investment	UIL	11.2	**(4.5)**	CIP Merchant Capital	(28.6)
European property	Alpha Real Trust	5.0	**(5.3)**	Dolphin Capital	(14.9)
Asia ex Japan	Pacific Assets	8.9	**(6.2)**	Schroder Asia Pacific	(11.8)
Hedge	BH Macro (USD)	31.9	**(6.5)**	Boussard & Gavaudan (GBP)	(14.0)
Global	Lindsell Train	46.6	**(7.2)**	Independent	(24.2)
Global emerging	Ashmore Global (USD)	16.8	**(8.0)**	Aberdeen Frontier Markets	(22.7)
Global equity income	Scottish American	(1.6)	**(8.3)**	Blue Planet	(16.8)
Asia – single country	Vietnam Enterprise	3.5	**(9.4)**	India Capital Growth	(24.9)
UK equity income	Finsbury Growth & Income	(0.9)	**(10.7)**	Chelverton UK Dividend	(32.2)
UK equity & bond inc	CQS New City High Yield	(2.2)	**(11.3)**	Acorn Income Fund	(24.5)
UK smaller co.s	Gresham House Strategic	5.5	**(11.5)**	River & Mercantile Micro Cap	(23.4)
UK	Crystal Amber	10.0	**(11.8)**	Schroder UK Mid Cap	(17.3)
Natural resources	BlackRock Commodities Inc	(2.2)	**(11.8)**	CQS Natural Resources	(23.7)
Europe	Jupiter European Opps	(4.9)	**(13.7)**	JPMorgan European Growth	(21.5)
Japan smaller co.s	Baillie Gifford Shin Nippon	(8.4)	**(15.5)**	JPMorgan Japan Smaller Co.s	(21.3)
Japan	CC Japan Income & Growth	(7.0)	**(16.2)**	Baillie Gifford Japan	(18.0)
European smaller co.s	Montanaro Europn Smaller	1.4	**(22.1)**	TR European Growth	(34.5)

Source: Morningstar, Marten & Co.

Plane leasing company, Doric Nimrod Air One, was helped by some evidence of demand for second hand Airbus A380s. SQN Asset Finance Income C generated a 4% return on NAV but experienced a slight widening of its discount.

Bluefield Solar Income's returns were helped by above average sunshine in the summer. It made a few acquisitions during the year. John Laing Environmental Assets had a good year in NAV terms but its premium moderated a little.

3i Infrastructure handed back £425m to investors after making some sizeable sales. It is not really exposed to UK PFI/PPP projects in the way that International Public Partnerships is. There are worries about a possible Labour government renationalising some of these projects.

BioPharma Credit had a phenomenal year, issuing a lot of stock (see page 11) and, more recently, benefitting from a takeover of one of its largest holdings. By contrast, Blackstone/GSO Loan Financing was affected by a sell-off in the CLO market at the end of 2018, as investors worried more about loan quality.

GCP Student Living is upbeat. It opened its Bloomsbury building during the year and agreed to fund a new building in Brighton. Residential Secure Income has been held back by its slow pace of investment since its IPO. It has just announced a deal to build part-ownership accommodation in a partnership with Morgan Sindall.

Syncona did very well out of the IPO of Autolus Therapeutics (which is using the body's immune system to fight cancer). Biotech Growth's exposure to the larger biotech stocks acted against them, particularly towards the end of the year. However, the takeover of Celgene in January 2019 has given them a welcome fillip.

LXi REIT's attractive yield and diverse portfolio encouraged investors to push its shares onto a decent premium to NAV. By contrast, Standard Life Investments Property Income moved from trading at 6% premium to an almost 10% discount as some shareholders fretted about the impact of Brexit on its portfolio.

JPEL Private Equity is making progress with its gradual wind up. EPE Special Opportunities was caught out by a profit warning from its largest investment, Luceco.

As the focus in the US switched from growth to value, BlackRock North American benefitted. Gabelli Value Plus+ had a poor final quarter of 2018.

UIL has an eclectic portfolio unlike any of the other funds in its sector. Its discount narrowed a little over 2018. An Australian technology investment, Afterpay Touch, multiplied in value, contributing to its NAV rise. CIP Merchant Capital has not got off to a good start. Its concentrated portfolio includes an oil & gas exploration and production company, Coro Energy, whose share price has slumped.

Alpha Real Trust benefitted from the recent sale of its data centre in Frankfurt and got planning permission for a development in Leeds. Dolphin Capital is gradually dismembering its portfolio.

Pacific Assets' investment style came back into vogue and, on a relative basis, was helped by favouring India over China. Schroder Asia Pacific's exposure to Chinese technology stocks will have contributed to it bringing up the rear in this sector.

BH Macro and the other hedge funds have been helped by the uptick in volatility. This gives them more opportunity to make money. Boussard & Gavaudan was hit by a widening discount.

Lindsell Train was buoyed by an increase in the value of its asset manager. Investors ignored warnings from its directors and pushed it onto a 44% premium at the end of December. Independent was caught up in the sell-off in small cap growth stocks that occurred towards the end of the year.

Ashmore Global is in gradual liquidation; its electric vehicle investment, Microvast, was written up in value. Aberdeen Frontier Markets' performance was discussed in our recent note.

Scottish American's premium rose a little. Blue Planet had some exposure to Argentina as well as Chinese technology stocks.

Vietnam Enterprise managed to outperform the Vietnamese market but India Capital Growth lagged other Indian funds as small and mid cap stocks underperformed larger ones.

Finsbury Growth & Income's low yielding portfolio of growth stocks outperformed higher yielding portfolios. Chelverton UK Dividend's bias to smaller companies and its gearing worked against it, as worries grew about Brexit.

We wrote a note recently on CQS New City High Yield which discusses its track record. Acorn Income Fund was hit by the same UK small cap bias and gearing issues that affected Chelverton UK Dividend.

Gresham House Strategic's significant investment in IMI Mobile helped its NAV performance over 2018. River & Mercantile Micro Cap was hit by the sell-off in growth stocks as well as its bias to the smaller end of UK small cap.

Activist investor, Crystal Amber, had some successes in 2018 including with its Hurricane Energy investment. Schroder UK Mid Cap's more mainstream portfolio meant it was seen as vulnerable to any Brexit related downturn.

The yield available from BlackRock Commodities Income may have helped its discount to narrow in 2018. While CQS Natural Resources Growth & Income's stock selection let it down.

Jupiter European Opportunities returned to form in 2018 but the growth pool of JPMorgan European was hit by a widening discount and the sell-off in growth stocks.

Japan smaller companies trusts gave up some of the very strong returns they made in 2017. Baillie Gifford Shin Nippon delivered sector-beating stock selection once again, especially relative to JPMorgan Japan Smaller Companies, despite the formers strong bias to growth stocks.

In large cap Japan, having a bias to income stocks was beneficial for CC Japan Income & Growth. While Baillie Gifford Japan's growth bias worked against it in 2018.

Montanaro European Smaller Companies delivered by far the best NAV returns in its sector over 2018 and saw its discount tighten. Its bias to high quality companies came through in a period where more speculative growth stocks, of the type favoured by TR European Growth, fell out of fashion.

Best performing funds

Figures 4 and 5 show the best performing individual funds in 2018 in both price and NAV terms.

Figure 4: Best performing funds in price terms in 2018

	%
Lindsell Train	46.6
Syncona	32.8
BH Macro (USD)	31.9
Gulf Investment Fund	26.8
3i Infrastructure	22.2
EJF Investments	21.9
LXi REIT	21.4
Doric Nimrod Air One	21.2
BH Macro (GBP)	18.2
BH Global (USD)	18.1

Source: Morningstar, Marten & Co

Figure 5: Best performing funds in NAV terms in 2018

	%
Syncona	38.4
EJF Investments	29.6
FastForward Innovations	23.8
Gulf Investment Fund	20.9
BH Macro (USD)	19.9
Lindsell Train	18.8
HarbourVest Global Private Equity	17.8
Crystal Amber	17.7
DP Aircraft 1	16.8
Regional REIT	16.0

Source: Morningstar, Marten & Co

We have discussed many of the funds listed in Figure 4 in the section above. It is interesting to note the difference in returns between BH Macro's US dollar shares and its Sterling shares. This reflects Sterling weakness and the volatility in the exchange rate over the year, which ranged between about 1.25 and 1.44 dollars to the pound. BH Global is a more broadly-based fund than BH Macro.

Gulf Investment Fund broadened its remit beyond investing in Qatar to investing across the Gulf region as a whole. The shift was well-timed as, as is evident in Figure 2 on page 5, countries such as Saudi Arabia, Kuwait and Oman were amongst the best performing in the world in 2018.

EJF Investments invests in securities issued by banks and insurance companies, leveraged loans and speciality finance companies. Had it been assigned to the debt sector rather than the specialist financials sector, it would have topped the tables, beating similar funds.

FastForward Innovations provides a cautionary tale for investors tempted to buy funds on significant premiums to asset value. It had a good year, booking a decent profit on its Canadian cannabis investment. Short-term investors moved on however, and you will also find FastForward in the worst performing funds in price terms in Figure 6.

HarbourVest Private Equity's NAV moved higher after a run of distributions, exits and valuation uplifts. As an illustration, exits achieved in six months ended 31 July 2018 were at an average 53% premium to their previous valuation. It was a shame that its share price didn't keep up with the NAV, a problem experienced by many private equity funds (see page 14).

Plane leasing company, DP Aircraft 1's high yield and US dollar exposure worked in its favour over 2018. The Boeing 787-8s (Dreamliners) that it owns are in demand, which helps maintain their potential second-hand value.

Regional REIT shrugged off the UK property sector's Brexit woes and reported decent uplifts in its NAV over 2018. It helps that it has relatively low exposure to the struggling retail sector.

Worst performing funds

Figures 6 and 7 show the worst performing individual funds in price and NAV terms.

Figure 6: Worst performing funds in price terms in 2018

	%
CATCo Reinsurance Opportunities	(74.7)
CATCo Reinsurance Opportunities C	(55.7)
TR European Growth	(34.5)
EPE Special Opportunities	(32.3)
FastForward Innovations	(32.2)
Chelverton UK Dividend Trust	(32.2)
CIP Merchant Capital	(28.6)
India Capital Growth	(24.9)
JPMorgan Chinese	(24.7)
Acorn Income Fund	(24.5)

Source: Morningstar, Marten & Co

Figure 7: Worst performing funds in NAV terms in 2018

	%
CATCo Reinsurance Opportunities	(46.2)
EPE Special Opportunities	(36.3)
Better Capital 2012	(33.0)
CATCo Reinsurance Opportunities C	(32.9)
Better Capital 2009	(29.9)
CQS Natural Resources	(29.0)
JPMorgan Chinese	(25.4)
Premier Global Infrastructure	(25.3)
Chelverton UK Dividend Trust	(25.1)
TR European Growth	(24.3)

Source: Morningstar, Marten & Co

Many of the funds listed in Figure 6 were discussed in relation to Figure 3 above. JPMorgan Chinese was hit by its exposure to the Chinese A share market which, as we saw in Figure 2 on page 5, was one of the worst places to be in 2018.

The two Better Capital funds did not cover themselves in glory in 2018. The older 2009 fund was hit by a writedown in the valuation of its Omnico (software) and SPOT (Spicers-Office Team workplace supplies) businesses. The 2012 fund experienced writedowns in SPOT and its Everest (double glazing) investments.

Premier Global Infrastructure has a highly geared structure and some exposure to China and other emerging markets. It has been recovering quite strongly so far in 2019.

Money in and out of the sector

22 new issues raised £3.6bn

2018 was a bumper year for new issues with 22 brand new funds that raised £3.6bn for the sector. In addition, in June we also saw the London listing of a c£400m property fund, Stenprop, which became a UK REIT in May 2018 and is transitioning to focus on UK industrial property. If there is a 'yes' in the note or article? column, these link through to notes or articles that we have written on these funds.

Figure 8: New fund launches

Fund	Launch date	Size at IPO £m[1]	Premium / (discount) (%) 31/12/18	Investment Focus	Note or article?
SDCL Energy Efficiency Income	11/12/18	100.0	2.0	Energy efficiency such as LED lighting and localised generation	yes
M&G Credit Income	14/11/18	100.0	3.7	A mix of public and private debt and debt-like instruments	-
Gresham House Energy Storage	13/11/18	100.0	5.1	Battery storage projects	yes
Merian Chrysalis	06/11/18	100.0	4.6	Pre-IPO investments	yes
AVI Japan Opportunity	23/10/18	80.0	6.3	Activism in Japan	yes
CEIBA Investments	22/10/18	137.0	(15.7)	The only way of investing directly in Cuba, with a focus on hotels	yes
Smithson Investment Trust	19/10/18	822.5	6.2	Small and mid cap stocks in a global portfolio	-
Mobius Investment Trust	01/10/18	100.0	(3.3)	Emerging markets with an emphasis on environmental, social and governance	-
Trian Investors 1	27/09/18	270.6	3.6	An activist vehicle targeting one, as yet unnamed, company	-
GRIT Real Estate Income	31/07/18	$450.0	(1.1)	An African property fund with a high yield	-
Hipgnosis Songs	11/07/18	202.2	10.4	A portfolio of rights to music	-
Tritax EuroBox	09/07/18	300.0	(8.9)	Large European logistics properties	yes
Ashoka India Equity	06/07/18	45.6	(6.6)	Indian equities	yes
Yellow Cake	05/07/18	$200.0	(9.5)	Uranium oxide	-
Yew Grove REIT	08/06/18	€75.0	4.1	Irish offices and industrial properties	-
Gore Street Energy Storage	25/05/18	30.6	(1.5)	Battery storage	yes
Odyssean	01/05/18	87.5	1.4	UK small cap with private equity style investment approach	-
Life Settlement Assets	26/03/18	$129.0	(59.8)/(26.1)	Portfolios of US life insurance policies	-
Baillie Gifford US Growth	23/03/18	173.0	2.0	US stocks with a growth bias	-
Augmentum Fintech	13/03/18	94.0	(6.0)	Financial technology companies	yes
JPMorgan Multi-Asset	02/03/18	89.4	(2.8)	Flexible, multi-asset investment	yes
Marble Point Loan Financing	13/02/18	$205.7	10.5	Diversified portfolio of loans	-

Source: Morningstar, Marten & Co. Note 1) unless otherwise stated.

Some of these new listings were of pre-existing funds. Marble Point Loan Financing raised $42.5m of new money to add to a pre-existing fund. Similarly, GRIT Real Estate Income raised $132m of new money at IPO and CEIBA Real Estate raised £30m of new money. Life Settlement Assets is actually one fund with four portfolios – A, B, D and E.

Inevitably perhaps, with markets weak and Christmas looming, new issue fatigue set in towards the end of the year. Many more funds tried to launch in 2018 but did not make it.

While Smithson Investment Trust broke the record for the largest fund IPO, taking the crown away from Woodford Patient Capital, some of these funds were on the small side, failing to hit their targets. Many of them will be hoping to expand in 2019 and beyond.

Money in and out of existing funds

Figures 9 and 10 show the approximate value of shares issued or redeemed at 31 December 2018.

Figure 9: Money raised

Fund	£m
BioPharma Credit	384.4
Sequoia Economic Infrastructure	355.0
Secure Income REIT	343.2
The Renewables Infrastructure Group	261.5
Scottish Mortgage	252.3
PRS REIT	230.7
LXI REIT	187.3
BBGI	152.5
Triple Point Social Housing REIT	150.7

Source: Morningstar, Marten & Co

Figure 10: Money returned

Fund	£m
NB Global Floating Rate Income	207.4
Templeton Emerging Markets	144.0
Pacific Alliance China Land	110.8
Alliance Trust	92.9
Carador Income	68.2
JPMorgan American	50.3
Riverstone Energy	49.3
Mercantile	48.0
VinaCapital Vietnam Opportunities	40.9

Source: Morningstar, Marten & Co

Money coming into existing funds

£5.5bn flowed into funds that existed at the start of 2018

BioPharma Credit has had phenomenal success in its short life, surpassing £1bn of assets in 2018. Already in 2019 it has benefitted from the early repayment of a loan it made to a company that was subsequently taken over.

Sequoia Economic Infrastructure and Secure Income REIT also exceeded the £1bn mark for the first time in 2018. Sequoia's fundraise was used to expand and diversify its portfolio of loans to infrastructure projects. Secure Income REIT bought a portfolio of leisure assets (including the Manchester Arena) and 59 UK hotels let to Travelodge. LXi REIT was also in the market for Travelodges as it continued to expand its diverse collection of UK property.

Renewables Infrastructure bought a number of wind farms in the UK, France and Sweden. Scottish Mortgage was unusual in this list as it has been feeding new shares into the market to meet demand rather than engaging in raising lump sums for specific projects. PRS REIT is aiming to build 5,600 new homes. BBGI is expanding its portfolio of PPP/PFI type projects with recent purchases in Netherlands and the UK. Triple Point Social Housing added to its portfolio of supported living properties.

In addition to the amounts listed in Figure 8, Greencoat Renewables, Foresight Solar, Honeycomb, GCP Infrastructure, BB Healthcare, Finsbury Growth & Income, John Laing Environmental Assets, Greencoat UK Wind, GCP Asset Backed Income, Tritax Big Box and Primary Healthcare Properties each issued shares worth at least £100m over the course of 2018. Standard Life UK Smaller Companies expanded considerably as well as it merged with Dunedin Smaller Companies.

Money going out of existing funds

£1.6bn flowed out of the sector from funds still in existence at the end of 2018

NB Global Floating Rate Income buys back shares almost every day. Its returns look lacklustre when compared to other funds in the debt sector but this, in part, reflects its focus on senior secured loans.

Templeton Emerging Markets' shrinkage is largely a sign that emerging markets were out of favour for much of 2018. Other smaller funds also saw outflows. Templeton also lost its manager who later turned up as co-manager of a competing fund, new launch, Mobius Investment Trust.

Pacific Alliance China Land has been selling off its portfolio and handing back cash to shareholders for some time. In December it handed back almost 90% of the outstanding balance, leaving a rump fund worth just a few million dollars.

Alliance Trust has been working hard to keep its discount around 5%. It sold off its savings platform in 2018, thereby completing the process of tidying up both its portfolio and its corporate structure that it began some years ago.

Carador Income created a realisation pool some time ago and this has been returning cash as the portfolio matures. A large part of the rest of the fund has rolled over into Blackstone/GSO Loan Financing in 2019.

JPMorgan American just failed to match the performance of its S&P 500 benchmark in 2018, losing ground in December as US markets fell sharply. Its largest investment, Apple, was particularly badly hit.

Riverstone Energy has sold a couple of large investments and returned surplus cash to shareholders. A slump in the oil price was unhelpful.

An investment in Mercantile is an investment in the UK economy and, unfortunately, investors have been deserting the market as Brexit overshadows the country.

VinaCapital Vietnam Opportunities completed the sale of its rump property portfolio in 2018 and beat its benchmark index. It still struggles to attract new shareholders however.

Liquidations, de-listings and trading cancellations

£2.3bn of funds in existence at the end of 2017 have left the sector

A long list of funds disappeared in 2018. There will be a few in this number that investors would have been glad to see the back of but it was a shame that a few decent funds went too, including a number of private equity trusts.

Taliesin Property (to a bid), Masawara, Aberdeen Private Equity, Candover, Eastern European Property, Tiso Blackstar, Northern Investors, Damille Investments II, Trading Emissions, South African Property Opportunities, BlackRock Emerging Europe (which was caught out by a poorly designed discount control mechanism), John Laing Infrastructure (which succumbed to a bid), EF Realisation, Mithras, Global Fixed Income Realisation, Phaunos Timber, and Juridica. In addition, Cambria Africa and Duke Royalty are no longer classified as funds.

Our independent guide to quoted investment companies was refreshed and republished during the year

Significant rating changes

Figure 11 shows how discounts and premiums moved over the course of 2018. Given the general antipathy towards the UK, it seems counterintuitive that, on average, discounts have been narrowing in the UK smaller companies sector. UK small cap suffered in the wake of the referendum and some of this discount narrowing reflects corporate activity in the sector as funds merge or announce that they will liquidate. River and Mercantile Micro Cap's discount widened when it lost its fund manager and the situation worsened when sentiment turned against growth stocks.

Figure 11: Biggest percentage point changes to discounts and premiums by sector over 2018

Sector	Greatest improvement in rating	%	Change in sector median. %	Greatest deterioration / lowest improvement in rating	%
UK smaller companies	Montanaro UK Smaller	8.8	**4.0**	River & Mercantile Micro Cap	(16.7)
Global emerging markets	Terra Capital	10.7	**2.8**	Fundsmith Emerging Equities	(6.9)
Infrastructure	3i Infrastructure	11.6	**2.7**	HICL Infrastructure	(3.6)
UK equity income	Merchants Trust	10.2	**2.2**	Chelverton UK Dividend	(10.3)
Global	Lindsell Train	30.1	**0.8**	Majedie	(7.7)
Asia – single country	Vietnam Enterprise	4.5	**0.4**	Kubera Cross Border	(18.4)
UK all companies	Baillie Gifford UK Growth	7.0	**0.4**	Manchester & London	(10.7)
Hedge funds	BH Macro (USD)	9.2	**0.4**	Alternative Liquidity Fund	(25.7)
Global equity income	Henderson International Inc	1.4	**0.3**	Blue Planet	(6.6)
Asia ex Japan	Pacific Horizon	8.7	**0.3**	Martin Currie Asia Unconstrained	(1.3)
Biotech / healthcare	International Biotechnology	2.4	**(0.1)**	Biotech Growth	(6.4)
North America	BlackRock North American	5.9	**(0.2)**	Gabelli Value Plus+	(1.7)
Flexible investment	Establishment	11.6	**(1.4)**	CIP Merchant Capital	(23.4)
European property	Aberdeen Standard Eur Log	1.4	**(1.5)**	Phoenix Spree Deutschland	(12.9)
Renewable energy	Bluefield Solar Income	5.2	**(1.9)**	John Laing Environmental	(5.3)
Japan	CC Japan Income & Growth	5.0	**(2.3)**	Schroder Japan Growth	(4.0)
Debt	NB Distressed Debt Extd Life	7.8	**(2.5)**	Blackstone/GSO Loan Fin	(20.4)
Commodities/Resources	Geiger Counter	21.9	**(4.4)**	Riverstone Energy	(16.2)
Europe	European Investment Trust	(0.7)	**(5.5)**	Henderson European Focus	(11.9)
UK property	LXi REIT	10.9	**(5.5)**	Standard Life Inv Prop Income	(16.3)
Private equity	Better Capital 2009	11.6	**(6.0)**	FastForward Innovations	(70.8)
European smaller co.s	Montanaro European Smaller	2.2	**(8.3)**	TR European Growth	(13.6)
Property specialist	Primary Healthcare Prop	2.4	**(11.6)**	MedicX	(32.8)

Source: Morningstar, Marten & Co

Of the funds that got more expensive in 2018, Terra Capital and Establishment both decided to throw in the towel and liquidate over time. Baillie Gifford took over the management of Schroder UK Growth and renamed the trust Baillie Gifford UK Growth. Elsewhere, income focused stocks remain popular.

Aberdeen Standard European Logistics got its IPO proceeds invested. Its premium may reflect its considered approach to deploying its capital. At the bottom of the table, Primary Healthcare Properties has just announced a merger with MedicX, providing a welcome uplift for the latter's shareholders.

HICL Infrastructure has drifted off as concern built about the possible impact of a Labour government on the UK infrastructure sector and the trust's disproportionate hit from the collapse of Carillion. The takeover of John Laing Infrastructure provided a little respite as investors warmed to the sector once again.

Manchester & London's fortunes waxed and waned – it was, for a time, one of the best performing investment companies but its exposure to growth stocks dragged it backwards towards the end of the year.

We have discussed many of the other trusts in the table elsewhere in this note. It is worth reiterating the FastForward story from page 9. When premiums become excessive, things get dangerous. FastForward moved from a 57% premium to a 14% discount over the year despite delivering decent NAV growth. Currently, the most highly rated investment companies are Doric Nimrod Air Three, where the NAV calculation is distorted by foreign exchange movements and so might not reflect reality, and Lindsell Train, where, despite frequent warnings from its directors, investors persist in ascribing a far higher valuation to the asset management company than its accounts do.

Major news stories

- Ranger Direct Lending was hit by Princeton
- Infrastructure funds, including HICL, reacted to Carillion's liquidation
- CatCo Reinsurance Opportunities took a big hit from the Californian wildfires
- JPMorgan Income & Capital's shareholders were given the option to rollover into JPMorgan Multi Asset Trust
- BlackRock Emerging Europe offered shareholders a 100% tender offer
- Baroness Dean of Thornton-le-Fylde, chairman of both Empiric Student Property and Residential Secure Income REIT, sadly passed away in March
- Dan Whitestone became the sole manager of BlackRock Throgmorton
- Philip Rodrigs, the star fund manager of River and Mercantile Micro Cap left
- Templeton Emerging Markets lost Carlos Hardenberg
- Blue Capital Alternative Income threw in the towel
- There was a bid for Phaunos Timber
- Dunedin Smaller merged with Standard Life UK Smaller
- Schroder UK Growth appointed Baillie Gifford as its new fund manager
- The board attempted to change the manager of Invesco Perpetual Enhanced Income
- A new manager was appointed to Shires Income
- Vietnam Holding reappointed its old manager
- John Laing Environmental expanded its anaerobic digestion portfolio
- Woodford Patient Capital wrote up the value of Industrial Heat
- There was a cash offer for John Laing Infrastructure
- A deal between Hansteen and Warehouse REIT collapsed
- Lazard World Trust Fund lost its continuation vote
- AXA Property Trust got a reprieve
- Interactive Investor bought Alliance Trust Savings
- Henderson EuroTrust said it was preparing for Tim Stevenson's retirement
- An ECJ ruling hit battery storage funds
- Impact Healthcare REIT pulled a planned £150m fundraise
- Ecofin Global Utilities and Infrastructure's manager was acquired by Tortoise, it also cut its fee

Outlook for 2019

Our January economic and political roundup has much more detail and many more comments on topics as diverse as Europe, North America, Global Emerging Markets, the global healthcare sector, European property and even an in depth look at the global uranium market

Rather than us pontificating on how events may unfold in 2019, here are a few recent comments from managers and directors drawn from our latest economic and political summary that you may find interesting.

On inflation:

The managers of Seneca Global Income & Growth note that "*employment conditions are now getting quite tight across the developed world and are putting upward pressure on wages and inflation. Trade tariffs and a rising oil price are also causing inflation pressures to build*"

Alasdair McKinnon, manager, Scottish Investment Trust: "*If excessive debt was one of the main contributing factors to the financial crisis, the measures taken over the past ten years have not addressed this. In fact, they have arguably made it worse. It seems unlikely that an entire generation will commit itself to a life of indentured servitude to repay debt that they had no choice but to accumulate. History would instead suggest that the rules of the system will be changed. It is, of course, 'too early to tell' how the rules will change but the time-tested solution is currency debasement, in other words inflation*."

On Brexit:

Julian Cane, manager of BMO Capital & Income "*The outcome of Brexit negotiations and implications for the future are unclear at the time of writing (and I suspect will be for a long time to come), with perhaps the only certainty being that a large part of the population will not be happy; the possibility of a Labour Government with some radical policy plans would certainly deter many international investors.*"

The managers of Schroder UK Mid Cap "*Due to the uncertainty around Brexit, many international investors remain nervous about investing in UK companies. In Bank of America Merrill Lynch's November survey the UK remains the most out-of-favour asset class, with allocations around 20-year lows. Accordingly, the valuation of the market continues to look attractive relative to other major markets*."

Jonathan Cartwright, chairman of BlackRock Income & Growth "*There remains substantial uncertainty on how the Brexit process will play out and its longer term impact on the UK economy, particularly the UK financial services sector. In this context it is worth remembering that the UK equity market derives well over two thirds of its revenues from currencies other than sterling and for our largest companies the principal driver of future returns will be events in the global rather than domestic economy*."

On China:

Nicolas Smith, chairman of Schroder Asia Pacific "*Of the new issues facing Asia, probably the most fundamental is whether China can transition to a lower growth model at a time it is under political and economic pressure from its largest trading partner, the US. China, and the region as a whole, has a great record of achieving its goals and the next few years will test that record. I am conscious too that, at the moment, the state authorities are increasing their involvement with the commercial operating environment, potentially affecting the profitability of leading private sector companies*."

Howard Wang and Rebecca Jiang, managers of JPMorgan Chinese "*US-China trade tensions are not a new phenomenon but the imposition of trade tariffs on US imports of certain Chinese goods has created fears of a full-on trade war. The short-term prospects for Chinese exports look difficult and this is contributing to overall weakness in the economy, a slowdown in retail sales and a vulnerable currency. This uncertainty is causing manufacturers to reduce inventory and thereby precipitating a fall in revenue for the whole manufacturing supply chain*."

We wish you good luck with all your endeavours in 2019!

Ed, James, Matt, Dave, Alistair and the rest of the team at QuotedData

QuotedData

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