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Wealth & Investment

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Jonathan Davie
Gabelli Value Plus Trust plc,
64 St James Street,
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Dear Jonathan,

We first outlined concerns related to the vehicle with the previous Chairman, Andrew Bell, in March 2018. Those concerns related primarily to the following:

- material NAV underperformance since launch versus the most relevant Russell 3000 Value benchmark
- absence of ongoing performance attribution for non-Merger Arb exposure allowing investors to assess stock-picking performance once stylistic factors and the Merger Arb element have been accounted for
- inability to provide performance attribution for the historic composite track record referred to at the time of launch
- significant deviation in performance between Gabelli funds with similar asset class focus, philosophy, and PM overlap
- supported documentary justification for added value from small tail positions over and above "core" 40-60 stocks
- rationale for the level of management fees having regard for fixed operating costs having a material impact on the OCF as a result of the small vehicle size with no clear catalyst for growth
- monthly Factsheet narrative being centred on absolute rather than relative performance drivers
- justification for Merger Arbitrage element of portfolio remaining

When we aired these issues last year, we were unsure whether the manager might have addressed some or all of these points through information provided to the Board but not investors (even a substantial one such as ourselves). On the announcement that Mr Bell was standing down as Chairman, we deferred further enquiries to give his replacement time to get his "feet under the desk".

However, in subsequent discussions you intimated that the Board did not have access to such information, so we were hopeful that the Board would then conclude that it needed to take a more proactive stance on shareholders' behalf.

After our meeting on 20th June 2019, we were disappointed to hear during the following week that the Board seemed satisfied with the status quo despite the concerns of the largest non-GAMCO shareholder which you conceded seemed valid in nature. No responses to our specific concerns were offered, prompting us to once again clearly summarise the areas of focus, hoping that with over a month before the AGM, a robust response to our concerns would have been provided (once discussed with the Board as a whole).

Unfortunately, by our internal deadline for lodging votes (26th July 2019), there had been no response of any kind which was wholly unacceptable in our opinion. As a result of our interaction through you with the Board so far, we felt there had been little evidence of the Board acting proactively on behalf of shareholders despite the material NAV underperformance of the vehicle, double-digit discount to NAV, lack of obvious catalyst for improved performance, high management fees, limited liquidity, and poor reporting.

In addition, we were disappointed that the Board had not sought enough views from the wider investor base and were dismissive of considering an early Continuation Vote, for example, despite little if any justification for why this should not be offered to investors at this time. We therefore recommended that our nominee company on behalf of our discretionary clients vote against re-election of the Board.

Whilst the shareholder letter sent by the Manager on Tuesday 30th July 2019, just ahead of the AGM at 11am the following morning, showed more preparedness and ability to explain relative performance drivers, we feel it didn't provide us with any incremental evidence to support the fund's lacklustre performance since IPO. In fact, we felt the break-down of performance drivers by long-term and short-term positions validated our concern that stock selection performance for the non-deal element of the fund has been particularly poor given the material relative underperformance versus the Russell 3000 Value index of the long-term positions in isolation - challenging the perception that the deal element had been a key detractor (all the more important given the materially increased exposure to the straight equity element within the portfolio since IPO).

The liquidity assessment in the letter of the tail of smaller exposures justified good use of the closed-ended structure but there was little to indicate that this approach and use of capital would lead to superior returns over an allocation simply to 40 – 60 "core" stocks in our opinion. In addition, we feel that the argument that "GVP is an absolute return orientated portfolio without a relative passive benchmark to reference" is not justified given the extent of non-deal exposure (90% or so at the time of writing), high-beta nature of that exposure, and the risk of cash deals breaking during times of crisis.

Regarding the Board's announcement on 31st July 2019 in relation to the Tender Offer and amended terms and increased frequency of the Continuation Vote, whilst we feel this is movement in the right direction, we believe this still falls some way short of the action we would reasonably expect from a Board clearly safeguarding the interests of shareholders. As discussed when we spoke a few weeks prior to the AGM, we don't regard a Tender Offer as a complete solution as it only allows a fraction of the shareholder base to exit and avoid locking in a more significant discount to NAV if they are unsatisfied with the experience they have had to date as investors in the vehicle.

The removal of the average discount trigger for the 2020 Continuation Vote is helpful but we feel that this simply corrects a significant weakness in the terms at IPO. In the absence of a robust defence of the fund's poor performance since launch and no incremental evidence to indicate that investors should reasonably expect this to improve going forward (net of stylistic biases), we are of the view that shareholders should not have to wait another year to express their satisfaction (or otherwise) with the vehicle. In our opinion, a valid and defensible argument for investors having to wait until next year's AGM for a Continuation Vote has not been made by the Board.

We suggested the Board use the Tender Offer as way of assessing current shareholder sentiment towards the vehicle. For example, if the tender price were to be set sufficiently close to NAV, a material proportion of existing non-GAMCO shareholders electing to tender could reasonably be assumed to be indicative of discontent and therefore trigger a Continuation Vote. We were disappointed to hear that there was no appetite from the Board to use the proposed Tender in such a way.

It is for these reasons that we intend to requisition a General Meeting in order to facilitate a Continuation Vote.

As a result of our recent engagement and voting action it will be clear that we are - and will continue to be - committed to acting to secure the best possible outcome for our clients who are shareholders of Gabelli Value Trust.

Best regards

Chris

Chris Hills

Chief Investment Officer
Investec Wealth & Investment Limited